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## DEPARTMENT OF DEFENSE



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# ANNUAL STATEMENT OF ASSURANCE

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92-09786

FOR FISCAL YEAR 1991

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## EXECUTIVE SUMMARY

The Federal Managers' Financial Integrity Act (FMFIA) requires that the Head of each Executive Agency provide an annual statement of assurance to the President and the Congress stating whether the goals of the Act are being achieved. As indicated in the enclosures, this DoD Annual Statement of Assurance for FY 1991 provides a basis for such assurance.

- **Enclosure A** provides a statistical summary of DoD's FMFIA performance. Of the 587 problems identified from FY 1983 through FY 1991, 507 (87 percent) have been corrected. It also shows the number, type, and title of financial management systems nonconformances.
- **Enclosure B** summarizes DoD's review process, describes accomplishments, and addresses special interest items, including the impact of the Defense Management Report, the Chief Financial Officers Act, Defense Contract Audit Agency support, and the Defense Business Operations Fund.
- **Enclosure C** provides a general progress report on the DoD high risk areas; Financial Accounting for Real and Personal Property, Supply Operations, Contract Administration, Information Technology/ADP Security, and Contract Advisory Assistance Services.
- **Enclosure D-1** contains two lists; material weaknesses requiring corrective action (Enclosure D-2) and weaknesses corrected this period (Enclosure D-3).
- **Enclosure D-2** describes the 80 pending material weaknesses and action plans to correct them.
- **Enclosure D-3** contains information about the 38 material weaknesses corrected during FY 1991.
- **Enclosure E-1** includes a report on accounting system conformance and provides a list of pending material nonconformances.
- **Enclosure E-2** provides descriptions of pending material nonconformances and corrective actions planned.
- **Enclosure E-3** describes the material nonconformances corrected during FY 1991. It also contains an inventory of DoD accounting systems.

The DoD Annual Statement of Assurance for FY 1991 reflects substantial progress in strengthening internal management controls. It also reflects a commitment to the Internal Management Control Program as a key vehicle for improving management across a broad spectrum of functional areas.

# ENCLOSURE A

## STATISTICAL SUMMARY OF PERFORMANCE

### Section 2. Internal Control Systems

A. Overall Compliance Yes X No      Year Achieved FY 1983

### B. Number of Material Weaknesses

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending</u>
Prior Years	448	435	13
1989 Report	44	30	14
1990 Report	49	29	20
1991 Report	46	13	33
Total	587	507	80

### C. Pending Material Weaknesses

<u>Category</u>	<u>Number</u>	<u>Fiscal Year</u> <u>First</u> <u>Reported</u>	<u>Scheduled</u> <u>for</u> <u>Correction</u>
<b>Program Management:</b>			
Systems Development and Implementation	1	89	92
	1	91	92
Environmental Impact	1	90	92
	1	91	92
Other (Force Readiness)	1	85	94
	1	88	94
	1	89	92
	1	91	92

Pending Material Weaknesses (Con't)

<u>Category</u>	<u>Number</u>	<u>Fiscal Year</u> <u>First</u> <u>Reported</u>	<u>Scheduled</u> <u>for</u> <u>Correction</u>
<b>Functional Management:</b>			
Procurement	1	85	92
	1	87	92
	2	88	92
	2	89	92
	1	89	93
	2	90	92
	4	91	92
	2	91	93
Personnel and Organizational Management	1	89	92
	3	90	92
	2	91	92
	1	91	93
ADP Security	1	89	92
	1	90	93
	1	90	96
	2	91	92
	2	91	93
	1	91	94
Cash Management and Debt Collection	1	90	94
	1	90	95
	1	90	TBD
	8	91	92
	1	91	93
	1	91	TBD

Pending Material Weaknesses (Con't)

<u>Category</u>	<u>Fiscal Year</u>		
	<u>Number</u>	<u>First Reported</u>	<u>Scheduled for Correction</u>
Property and Inventory Management	1	86	92
	2	86	93
	3	88	92
	1	88	93
	5	89	92
	1	89	94
	1	89	95
	7	90	92
	2	90	93
	5	91	92
	1	91	TBD
	<hr/>		
Total	80		

## Section 4 - Financial Management Systems

### Compliance Assurance

	<u>Yes</u>	<u>No</u>	<u>Year Achieved</u>
Overall compliance with Section 4:			
• Compliance with financial information standards	X		1986 <u>1</u> /
• Compliance with systems functional standards	X		1986 <u>1</u> /

### Number of Material Nonconformances

	<u>In year indicated, number reported for first time</u>	<u>For that year, number that have been corrected</u>	<u>For that year, number still pending</u>
Prior years	187	76	111
1989 report	0	98	89
1990 report	0	126	61
1991 report	0	32 <u>2</u> /	29

Of the total corrected, how many were corrected in 1991? 2/

### Pending Nonconformances

<u>Name of System</u>	<u>Type of Nonconformance</u>	<u>Title of <u>3</u>/ Nonconformance</u>
General Accounting	Compliance with SGL Data quality Effective interfaces Documentation Audit trails Cost accounting Mission Performance Primary financial system	General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/Cost Accounting/System Controls/Audit Trails/System Documentation/ System Operations/User Information Needs/ Budgetary Accounting

tock Fund  
ccounting

Compliance with SGL  
Data quality  
Effective interfaces  
Documentation  
Mission Performance  
Primary financial  
system

General Ledger  
Control and Financial  
Reporting/Property  
Accounting/Accounting  
for Receivables/  
System Controls/Audit  
Trails/System  
Documentation/System  
Operations/User  
Information Needs/  
Budgetary Accounting

Industrial Fund  
ccounting

Compliance with SGL  
Data quality  
Effective interfaces  
Documentation  
Audit trails  
Mission Performance  
Primary financial  
system

General Ledger  
Control and Financial  
Reporting/Property  
Accounting/Accounting  
for Receivables/  
System Controls/  
Audit Trails/  
System Documentation/  
System Operations/  
User Information/  
Needs Budgetary  
Accounting

- 1/ Overall compliance was deemed to have occurred when more than 50 percent of DoD systems were judged to be in substantial compliance with GAO and OMB requirements.
- 2/ This statement represents a revision to the DoD methodology in reporting material nonconformances. In prior years, material nonconformances reported by the various DoD Components were individually reported in the DoD-wide Statement of Assurance. In FY 1991, the responsibility for the DoD-wide application of accounting and finance was consolidated into the Defense Finance and Accounting Service and the long-term corrective actions for all nonconformances were centralized and are being addressed by the Defense Management Report and the Corporate Information Management process. Therefore, the total number of pending nonconformances for FY 1991 represents a consolidation of the material nonconformances reported by the individual DoD Components. As a result, the number of material nonconformances corrected in FY 1991 is an adjusting entry to mathematically correspond to that total.
- 3/ A complete description of the pending nonconformances within each noncompliant system is described in Enclosure E.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
INTERNAL MANAGEMENT CONTROL (IMC) EVALUATION PROCESS

1. Section 2

The system of internal accounting and administrative control, of the Department of Defense (DoD), in effect during the fiscal year ending September 30, 1991, was evaluated in accordance with the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. These guidelines were issued by the Executive Office of the President, Director of the Office of Management and Budget (OMB), in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Policies which govern the DoD system of internal controls are contained in revised DoD Directive 5010.38 (dated April 14, 1987) and are consistent with OMB Circular A-123 (dated August 4, 1986).

The objectives of the system of internal accounting and administrative control of the DoD are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.
- Programs and administrative functions are efficiently and effectively carried out in accordance with applicable guidance.
- Internal management control systems emphasize prevention of waste, fraud, and mismanagement, as well as encourage timely correction of specific problems.

The cost of internal control should not exceed the benefits expected to be derived therefrom; the recognition of that restraint is acknowledged in the concept and declaration of reasonable assurance. The benefits of adequate internal management control are the achievement of stated objectives and mission accomplishment. Although the concept of internal controls is broader than just consideration of monetary impact of inadequate controls, expected benefits (net of related costs of control procedures) should be addressed using estimates and managerial judgment. Furthermore, the appropriateness of an

internal management control is based on a management judgment about the organizational environment and any perceived threats to that environment. These determinations are often subjective determinations. Errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding.

To assure that all its resources are properly managed and controlled, DoD has long operated systems of checks and balances, and other internal control evaluations. This scrutiny of management control systems also provided for prompt and full disclosure when deficiencies were identified, as well as timely implementation of corrective actions. The FMFIA, implemented Department-wide through the IMC Program, has given a further impetus to the establishment of formalized Department-wide programs to prevent and correct fraud, waste, and mismanagement. The implementation of FMFIA incorporates and makes use of management control data made available through other organizational processes. The use of all available and established informational sources helps the Department to minimize the cost of implementing the FMFIA.

At the inception of the program, the DoD IMC eight-step process was established. While the program has evolved, the emphasis of the eight-step process has remained fundamentally the same. The eight steps, somewhat changed to satisfy program modifications, are: (1) organizing the process, (2) segmenting the agency into assessable units, (3) developing a Management Control Plan, (4) conducting risk assessments on these units, (5) conducting internal management control reviews or other appropriate management actions, as necessary, (6) scheduling and taking corrective actions, (7) providing for quality control, and (8) preparing reports on the evaluative process. By adding new dimensions to existing managerial methodologies, enhancing internal control concepts and providing new tools for data gathering and measurement, a more comprehensive IMC Program has evolved over the past years. The program has become a vehicle for Components to isolate, control, set milestones, and pursue actions to prevent, or identify and promptly correct internal management control weaknesses.

The DoD IMC Program has established a basic framework that allows for full and continuing implementation of the FMFIA. This accomplishment was acknowledged in prior period reports published by the United States General Accounting Office (GAO) and the Executive Office of the President, Office of Management and Budget.



In FY 1987, guidance streamlined the IMC review process and established a structured framework for DoD compliance with the OMB requirement to develop a Management Control Plan (MCP). The MCP provides statistical data which convey the level of programmatic activity and progress of that activity within a five-year evaluation cycle covering FY 1988 through FY 1992.

In FY 1988 the IMC Tracking System was redesigned to become a management information system, and is updated periodically to accommodate changes in OMB guidance. The system has been modified to incorporate the changing OMB requirements and to make use of this substantial management information source in context of other management responsibilities and initiatives, such as the Defense Management Report. The system tracks critical milestones by weakness, updates milestone status, accumulates a program history, and allows for the recognition of delays in weakness correction. It also captures the justification DoD Components are required to provide when there is a delay in completing corrective actions. These data are available to OSD functional proponents to help them determine whether remedial action is necessary. For the purpose of analysis, the system allows the extraction of data based on various parameters (i.e. reporting Component, reporting category, expected fiscal year of completion, key word search) and it can perform both stratification and trend analysis of weakness and milestone data. The data generated makes it possible to stratify slippage in weakness correction in ways that will allow us to identify those that may require more intense management attention. The tracking system will also be used to validate the successful accomplishment of weakness corrective actions.

The effective establishment and implementation of internal management controls is an inseparable element of the goals and mission responsibilities of the Department of Defense. Indeed, with or without the FMFIA, it is impossible to imagine the operation of this Department without the constant vigil that its internal controls provide and responsibility mandates. The value of its irreplaceable human resources and the protection of its capital resources is foremost in the minds of every member of the Defense management community. Operation Desert Storm reminded us that, more than any other Department, literal survival is dependent on the ability of management to effectively manage and control its resources. The application of internal management controls is an integral part of all Department actions and activities, and the constant reminder provided by FMFIA implementation serves to reinforce this high priority. Several of the narratives which follow will highlight this aspect of DoD operations.

Attempting to separate and differentiate internal controls or the evaluation of those controls from a holistic view of the management process is not only inconsistent with the basic

premise of internal controls, but also disregards the more fundamental premise that management functions must be integrated to be efficient and effective. In addition to disclosing some management improvement initiatives which have enhanced both the functional performance of the Department and the internal controls employed in the accomplishment of those functions, later portions of this tab are devoted to describing some of the initiatives/accomplishments of the DoD Internal Management Controls Program as it make more cohesive and integrated all the elements of management.

Responsibility for internal controls is included as a critical element in the performance appraisals for thousands of managers who are responsible for reviewing approximately 156,000 assessable units throughout the DoD. It has been observed that the Department of Defense has identified as many assessable units as all other Federal Departments combined. As noted above, to assure adequate coverage of internal controls and to maximize the management benefits derived from the IMC Program, many Components evaluate assessable units more often than once every five years.

#### FY 1991 Section 2 Statistical Data

Number of Assessable Units in DoD: 156,157

Results for FY 1991:

	<u>Planned</u>	<u>Conducted</u>
Number of Risk Assessments	3,050	13,378
Number of Internal Control Reviews	35,873	34,632
Number of Alternative Reviews	4,321	10,007

Percentage of all Assessable Units Reviewed:	37%
Conducted FY 1991 assessments/reviews as a percentage of Planned:	134%

Comments on results. For FY 1991 the Department of Defense had reported 156,157 assessable units. There are approximately 41,430 more assessable units reported in FY 1991 than were reported in FY 1990. This increase in the number of assessable units is primarily the result of greater refinement of assessable units by the Army and the Air Force and the addition of the Defense Finance and Accounting Service. Approximately 37 percent of all assessable units were reviewed, either in the context of a risk assessment and/or internal control review, including alternative reviews.

During FY 1991, the Department planned to conduct approximately 3,000 risk assessments, but actually conducted more than 13,000. Since the beginning of the current five year cycle which commenced in FY 1988, approximately 154,000 risk assessments have taken place throughout the Department.

Risk assessments sometimes indicate the need for further in-depth analysis, usually in the form of either an internal control review or an acceptable alternative review. During FY 1991, approximately 35,900 internal control reviews were planned and nearly 34,600 were actually conducted. The Department planned to conduct about 4,300 alternative internal control reviews, but actually conducted over 10,000 such reviews. Since the beginning of the current 5 year cycle, approximately 171,300 internal control reviews and 24,600 alternative reviews have been conducted within the Department of Defense, bringing the grand total for such evaluations to nearly 196,000.

## **2. Section 4**

The FMFIA, P.L. 97-255, was passed by Congress in September 1982 to require that department heads report annually to the President and the Congress as to whether their accounting systems (Section 4 of the Act) were operating in accordance with Comptroller General guidelines and standards as implemented by OMB. FMFIA Section 4 was to establish management accountability for the longstanding requirement for the implementation and maintenance of adequate systems of accounting under the Budget and Accounting Procedures Act of 1950. (An "Inventory of DoD Accounting Systems" can be found at the conclusion of Enclosure E-3.)

To provide the guidance required under Section 4 of the Act, OMB issued Circular A-127 in September 1984. This circular requires agencies to:

- (1) Issue a financial management system directive;
- (2) Establish an inventory of all financial management systems;
- (3) Conduct annual system manager self appraisal reviews and cyclical detailed independent evaluations of those systems inventoried;
- (4) Report annually on whether these systems conform to appropriate accounting principles and standards; and
- (5) Establish a working plan to bring all noncompliant financial management systems into compliance.

Implementation of Section 4 of the FMFIA had not been uniform throughout Military Departments and the DoD Agencies. Inventories of accounting and financial management systems have been developed based on different criteria, and systems had not been reviewed under uniform standards.

The Secretary of Defense in his July 1989 Defense Management Report to the President, set forth his plan to implement the

Packard Commission's recommendations to more effectively manage DoD resources. In accordance with this report the Deputy Secretary of Defense established a study group to review the alternatives on the consolidation and improvement of financial operations within DoD. The study group consisted of members of the DoD financial community including the Office of the Secretary of Defense, the Military Departments, and various Defense Agencies. After an exhaustive review, the study group recommended in April 1990, that a single DoD accounting and finance organization be established. The study group determined that the establishment of a single DoD accounting and finance organization was the most effective way, and offers the greatest potential for resolving many of the Department's long standing accounting and finance problems. A single DoD organization would:

- (1) Enhance operation through increased DoD-wide oversight;
- (2) Create greater consistency in application of accounting principles and standards;
- (3) Eliminate duplicative operations, systems, and developmental and maintenance efforts;
- (4) Reduce costs associated with implementing new requirements for financial management information;
- (5) Permit acceleration of both development and implementation of a Corporate Information Management System for finance and accounting functions; and
- (6) Ensure that DoD-wide standard financial operations and systems conform with statutory and regulatory standards and requirements.

The Defense Finance and Accounting Service (DFAS) was activated on January 15, 1991, by capitalizing the finance and accounting centers of the Army, Navy, Air Force, Marine Corps, and Defense Logistics Agency, and other related organizations, into a single DoD agency. DFAS was created to control, direct and standardize policies, procedures, standards, systems and operations of DoD financial and accounting functions by:

- (1) Providing financial services to DoD Components while maintaining and improving current standards of service;
- (2) Controlling finance and accounting policies, systems and operations. This includes standardizing financial and accounting information; incorporating applicable statutory and regulatory guidance for appropriated, nonappropriated, revolving and trust funds; and providing finance and accounting information that is accurate, comprehensive and timely;

- (3) Directing the consolidation, standardization, and integration of finance and accounting policies, systems and operations within DoD while maintaining strong functional relationships with other DoD business areas; and
- (4) Ensuring that common data elements and systems are used across the department, through Corporate Information Management, electronic data interchange and similar initiatives.

The Office of the Secretary of Defense assigned DFAS the responsibility to implement and manage a DoD-wide Section 4 program that provides uniform criteria and standards for evaluating and reporting on systems' conformance. Under this authority, DFAS provides DoD finance and accounting system conformance policy and guidance to the Military Departments and DoD Agencies, reviews the Departments and Agencies program for evaluating and reporting on the compliance of their systems, and prepares the DoD-wide Section 4 report.

In FY 1991 DFAS implemented the first phase of the DoD Section 4 program by standardizing the inventorying of accounting systems. DoD Accounting Systems are now categorized by function to better present the total DoD accounting system structure and provide uniform reporting under OMB guidelines. There are five primary or departmental level systems supported by six subsidiary systems. The six subsidiary systems are general accounting, military pay, civilian pay, stock fund, industrial fund and trust fund. Supporting the subsidiary systems are 281 administrative financial systems. The first phase also included the prototyping of the new standard DoD System Manager Review Guide. This guide was successfully tested at DFAS Centers and will be implemented DoD-wide in FY 1992 on the 281 administrative financial systems. The review guide is the product of an exhaustive examination of the Section 4 procedures in effect throughout DoD and is a comprehensive compilation of accounting requirements in all DoD accounting systems. The System Manager Review Guide is supported by the DFAS developed DoD Accounting System Requirements Data Base which is a compendium of over 1200 requirements taken from GAO, OMB, Joint Financial Management Improvement Program, Treasury, and DoD, and represents the accounting requirements which specify the requirements for compliance applicable to all DoD systems.

In FY 1992, the second phase of the DoD Section 4 program will consistently implement the FMFIA within DoD. The DoD Directive on Financial Management Systems will be revised by updating the policy, responsibilities, and procedures to be followed in developing, evaluating, and reporting on financial management systems. The process for determining nonconformances will be standardized and linked with the requirements of the Chief Financial Officers Act and OMB's Five Point Plan. The

correction of material weaknesses or nonconformances will be standardized and controlled through the Defense Management Report process. However, the FMFIA program will not be a stand-alone DoD program used only to report on the health of our accounting and financial management systems, but will be an inherent, integrated part of its operating philosophy and management practices. Its policy and procedures will emphasize the centralization and standardization of operating procedures to ensure consistency of reporting, streamline reporting requirements to eliminate redundancy and excessive paperwork, and stress program leadership and oversight. This program will provide an ongoing, DFAS controlled process to monitor the compliance of accounting and finance systems. It will also validate the effectiveness of systems corrections or improvements implemented as a result of the Defense Management Report.

The Defense Management Report initiatives, including the Corporate Information Management initiatives, provide the overall direction for actions that will provide for major management changes designed, among other purposes, to correct the FMFIA identified deficiencies and at the same time, these initiatives also will satisfy the requirements of the Chief Financial Officers Act and OMB's Five Point Program. The process of implementing the Defense Management Report will:

- (1) Enhance current operation through increased oversight;
- (2) Result in greater consistency in the application of accounting principles and standards on a DoD-wide basis;
- (3) Minimize costs associated with the implementation of new requirements for the identification of financial management information;
- (4) Enhance management's ability to make "smarter" and more cost effective decisions by providing more timely, meaningful, and accurate financial information regarding budget execution and various other financial management matters;
- (5) Facilitate management of the development of standard systems;
- (6) Permit more rapid development and implementation of standard systems for finance and accounting functions, as well as significantly increase the benefits accruing from such systems;
- (7) Increase opportunities to achieve savings through the elimination of duplicate operations, systems, and developmental and maintenance efforts, and other costs; and,

- (8) Accelerate the Department's ability to produce audited financial statements in accordance with the Chief Financial Officers Act of 1990.

There were four major financial Corporate Information Management initiatives underway during FY 1991 to meet these requirements: Civilian Pay; Contract Pay; Financial Operations; and Government Furnished Material. Their conclusions are as follows:

#### Civilian Pay

**Realignment:** The roles and responsibilities of payroll-related activities will be realigned to eliminate redundancy, improve efficiency, and improve the quality of service. Removing artificial boundaries between payroll and interrelated functions by redefining the appropriate roles and responsibilities of each will result in significant changes in payroll operations.

**Pay Policy and Procedures:** A single DoD office will be responsible for civilian payroll policy and procedures. All nonstandard payroll policies will be replaced by standard policies or justified based on management requirements, mission uniqueness, or cost effectiveness.

**Standard System:** A single standard system will be developed and implemented which provides automated payroll services to all civilians paid from appropriated funds and contains the flexibility needed to support other agencies. The system will be designed so it can be readily modified to respond to a changing customer base, legislative changes, and to support management initiatives.

**Retirement Procedures:** It is believed that effectiveness and efficiency can be substantially improved with a single agency responsible for retirement procedures. DoD will consider proposing transferring the responsibility of maintaining all individual retirement records to the Office of Personnel Management. Responsibility for all types of official retirement histories will then lie with the agency responsible for the payment of the annuity. Under this scenario, the Office of Personnel Management will accept electronically transmitted data on a biweekly basis to establish and maintain individual service and fiscal histories for retirement purposes. This will expedite claims processing by eliminating delays currently experienced in creating and transferring hardcopy retirement records.

**Savings Bonds:** It is believed that savings can be realized if a single agency is responsible for accounting and issuance of U.S. Savings Bonds. Under this proposal, the Treasury or another Federal agency will accept electronically transmitted data on a biweekly basis to establish and maintain individual U.S. Savings

Bond accounts. This will transfer the responsibility of both maintaining a record of deductions and issuing bonds.

#### Contract Pay

Uniformity: A single set of DoD regulations for contract payment will be used exclusively, without supplementation, and will be uniformly applied. Many Military Departments and DoD Agencies have unique regulations to interpret DoD or central agency guidance. This leads to poor communication, incomplete data in the payment system and increased interest penalties. Because of differing interpretations of the regulations, changes to the process are not uniform.

Compliance: Ensure that the contract payment process embodies all statutory, regulatory, and audit requirements. Some systems do not comply with the principles, standards, and related requirements prescribed by GAO, OMB, Treasury, and DoD. This results in reduced information credibility, duplicate entries, and untimely reporting.

Data Credibility: The Contract Payment System will use data from official sources which will be reliable and readily available. Information in current systems is often redundant, inaccurate, incomplete or untimely. This causes delayed, duplicate, untimely or inaccurate payments, interest penalties and labor intensive research and reconciliations.

Accountability: Accept and provide only accurate data. All interfaces that provide data required for the payment function will be exclusively accountable for the quality and regulatory compliance of their data. The burden of correcting data has often been left to the payment function rather than the receiving activity that originated the purchase. This has resulted in a large unmatched condition and has strained the reconciliation process.

Flexibility: Contract payment will be responsive to changing conditions. Multiple stand-alone processes cannot respond rapidly to changing conditions including mobilization, demobilization, technology advances, and changing regulatory and legislative requirements.

Customer Service: Contract payment function will be responsive to its customers. Currently, personnel cannot respond in a timely and accurate manner because of the lack of tools/resources, information and training. Problems are compounded by labor-intensive procedures, multiple interpretations of various regulatory guidance and incompatible systems. The result is lost discounts, poor cash management, high interest penalties, backlogs of unprocessed requests for payment, high levels of overtime and dissatisfied customers.



## Financial Operations

**Comparability and Consistency:** Financial operations will provide a DoD-wide standard accounting system to produce timely, accurate, comparable and consistent information. Corporate information will be captured once and shared by business functions. Standardized policies and procedures will be used to uniformly define, categorize and process all financial information.

**Service:** Managers at all levels will have access to financial information for more effective decision making. Financial operations will support managers by providing the opportunity to access and analyze financial information. Financial processes will be used to measure the effectiveness and efficiency of both organizations and managers.

**Streamline Operations:** All finance and accounting functions will be transferred to DFAS and financial operations will be migrated to the most appropriate operating mode, including functions best performed by another Federal Agency. Efficiency is increased by eliminating nonessential functions and processes through internal or external transfers.

## Government Furnished Material

**Control:** Standard methods for controlling and reporting transactions relating to Government material in the possession of contractors.

**Policy:** Implement control of contractor access to government furnished material and tracking of all government material in the possession of contractors. Effective May 1991, this Corporate Management Information initiative has been merged into the Financial Operations initiative.

**Qualified Work Force:** Employ an appropriately resourced and trained work force.

The compliancy of DoD accounting systems will be the direct result of the consolidation, standardization and improvements generated through the Defense Management Report and Corporate Information Management process. It must be recognized that because of the vast size, complexity and nonstandard operational and structural span of DoD accounting systems, full compliancy of all of our systems will be a long-term task requiring years of planning, developing and implementing standard systems. DFAS is committed to the improvement of DoD accounting systems and to the success of the process. Numerous projects are currently underway in support of this process, three of which have been completed and approved by the Comptroller of the Department of

Defense. These initiatives provide the strategies and actions required to consolidate and standardize the following financial systems in DoD:

Civilian Pay: The Navy Standard Civilian Payroll System was chosen as the standard civilian pay system DoD-wide. Designated as the Defense Civilian Pay System, it is projected to save \$15.2 million annually. The Defense Civilian Pay System will provide DoD with a fully automated standardized civilian payroll system supported by standard payroll procedures and practices. The system will be consolidated at two locations and will eliminate the duplication and inefficiencies which occur in present payroll and central design agent operations. Other benefits include:

- (1) Uniform interpretations of regulations and payroll calculations;
- (2) Standard operating procedures, forms, and training;
- (3) Reductions of overall documentation including regulations, manuals, user manuals, etc.; and
- (4) Standardization of civilian payroll systems supports the standardization and integration in other areas such as personnel, accounting, and labor accounting.

The first payroll office is scheduled to become operational in mid-1992 with consolidation being completed in 1995.

Military (Retirees/Annuitant) Pay: The Navy Retired Pay System and the Air Force Casualty and Annuitant Pay System were chosen to be the Defense Retiree and Annuitant Pay System. Projected annual savings for this standard system is \$4.8 million. In addition to providing the same benefits to the Defense Retiree and Annuitant Pay System as cited for the Civilian Pay System, the Defense Retiree and Annuitant Pay System will offer greater customer service by providing base level support to retirees at their nearest accounting and finance office. Conversion of pay accounts will start in December 1992 and be completed by December 1994.

Defense Travel Pay System: The Integrated Army Automated Travel System was chosen as the Defense Travel Computation System with an estimated \$73.3 million in annual savings. The system will use automated interfaces to input information from activities to a central processing site. Almost all manual processing of travel will be eliminated. The system will feature single entry of data to reduce accounting reconciliation problems. The completed system will:

- (1) Reduce travel processing workload;

- (2) Provide better internal controls; and
- (3) Improve the accuracy and timeliness of accounting records.

Implementation planning is in process and deployment of the standard system will be completed by the end of Fiscal Year 1995.

During FY 1991 DoD continued to implement proven accounting system improvements. The first phase of a DFAS field level general accounting subsystem for servicing posts, camps, and stations was successfully deployed to 7 additional Army locations bringing the total to 44 operating Army sites; the second phase is currently in the process of completing final field testing. A general accounting subsystem for Army wholesale logistics functions was fielded to an additional accounting office bringing the total to seven Army operating sites. Deployment is underway for DFAS's new military pay subsystem involving Joint Service Software for the active duty members with 30 Army finance offices already converted. Automated Teller Machines-at-Sea were installed on 20 ships bringing the total to 65 shipboard machines. Automated Teller Machines provide a dedicated, automated, and secure pay delivery system for personnel afloat. They eliminate the need to produce individual payroll checks and the pay lines associated with cashing paychecks.

#### **FMFIA IMPLEMENTATION**

The narratives provided in this subsection highlight many of the methods, procedures and exercises carried out to accomplish implementation of FMFIA requirements.

**The Internal Management Control Tracking System.** The IMC Tracking System, as redesigned in FY 1988, continues to be the primary data base collection mechanism for the IMC Program. No modifications were made during FY 1991.

**Internal Management Control Program Field Evaluations.** IMC field evaluations were conducted throughout FY 1991. The evaluations were designed to provide a range of program benefits. First, in the broadest sense, the evaluations focused on FMFIA implementation at operational levels. Second, the evaluations reviewed progress toward the correction of control weaknesses which fell within the OMB identified high risk areas. Third, and last, several weaknesses reported as corrected in the FY 1990 DoD Annual Statement of Assurance were reviewed to determine if the corrective actions were in place and had effectively resolved the problem.

The evaluations provided a reasonable degree of confidence in the execution of the IMC Program. A positive result was derived from all three aspects of the field evaluations. The follow-up

assessment of 'weaknesses reported as corrected' was conducted, in part, as a result of OMB letter guidance requesting correction verification by all agencies. The field evaluation follow-up actions reflect one part of a two part newly established DoD practice to assure adequate follow-up. The field evaluations provide a direct contact, hands-on evaluation of corrective actions. The second part of this practice will take effect in FY 1992. In FY 1992, DoD Components will provide an annual report, in the form of a DoD internal working document, which will indicate the status of corrective actions for weaknesses reported as corrected in the FY 1991 DoD Annual Statement of Assurance. The two exercises are complementary, and provide reasonable assurance that the OMB objective has been achieved. It should also be noted that the Department of Defense Inspector General conducts extensive and far more substantial follow-up activity in regard to audit findings and recommendations. While this activity is not a part of the IMC program, audit findings and recommendations bear a strong correlation to internal control weaknesses reported in the Annual Statement of Assurance.

The IMC field evaluation follow-up activity extended to 11 control weaknesses reported as corrected in the FY 1990 DoD Annual Statement of Assurance. The sites evaluated were located at DoD bases or installations throughout continental United States. Of the 11 weaknesses, only two caused evaluators to have reservations about the completion of required corrective actions. However, the reservations only extended to certain aspects of the corrective actions, rather than the entire action. In general, the delayed actions can be attributed to time requirements associated with complete dissemination of revised guidance or methodologies. The Office of the DoD Comptroller of the Department of Defense has tasked Components with incomplete actions to provide a status report on continuing progress.

Periodic field evaluations of FMFIA implementation have been in effect for several years and have become a routine activity of the program. While this exercise does occasionally uncover DoD sites where FMFIA implementation is not consistent with Departmental standards, those findings are the exception and nonsystemic. The evaluations reflect implementation and reporting at operational levels which is greater than the adequacy standard which is fundamental to FMFIA implementation. Management participation, programmatic training and effective reporting were the norm at bases and installations evaluated. The FY 1991 evaluation assured IMC Program evaluating personnel that program implementation supported the "reasonable assurance" position of the Department.

The practice established during the FY 1990 field evaluations, reviewing progress toward the correction of control weaknesses which fell within the OMB identified high risk areas, has become a program norm and was continued during FY 1991. In

FY 1991, the field evaluations focused on the evaluation of actions taken to correct weaknesses in the following high risk areas: Information Technology/Automated Data Processing Security, Supply Operations, and Contract Administration. In addition, the area of 'Outstanding Travel Orders and Advances' was also evaluated because of concerns the Department had regarding this activity. Within this context, seven IMC field evaluations were conducted during FY 1991 at DoD bases or installations throughout continental United States. In all cases, Components demonstrated continuing and satisfactory progress toward the correction of these weaknesses. The Defense Finance and Accounting Service is taking specific action to address the correction of the Outstanding Travel Orders and Advances weakness in a manner that will provide Department-wide application.

A unique and specific program evaluation was conducted aboard a Trident submarine. This was the second of two such exercises. In FY 1990, a similar evaluation was conducted aboard an aircraft carrier. The findings in both cases were most favorable. The various methods and procedures employed by the Department of the Navy to assure the adequacy and effectiveness of shipboard internal controls are outstanding. The Navy's evaluations exceed FMFIA requirements and provide a high degree of confidence in the adequacy of shipboard internal controls.

**Training - Department of Defense Financial Management Education and Training.** The Department of Defense has undertaken a comprehensive review of the education and training programs available for DoD financial management personnel. The review encompasses both training and the management of careerists within the financial management community of the Department. This is an outgrowth of the Comptroller's concern that the future work force will not only be smaller in number but will also have to deal effectively with an increasingly complex and technology-based environment. The training is viewed as one way of assuring the effectiveness of internal controls as this functional area downsizes. The Department recognizes the significance of financial management training as it relates to the section four requirements denoted in the Federal Managers' Financial Integrity Act.

The concept plan for the financial management education and training initiative was approved by the DoD Comptroller on December 5, 1990, with the stated purpose of providing more efficient and effective financial management education and training in a more coordinated and coherent manner than is presently done. It is a consensus-based initiative in which the Services and DoD Agencies have all played an active part. Coordination with other governmental agencies and the Joint Financial Management Improvement Program is ongoing.

Early in 1991 a series of multi-service, multi-agency working groups were formed to begin implementation of the initiative. These included a group to examine financial management training and education vis-a-vis existing career progression and personnel management systems, a group to examine the role of technology in financial management education and training, a similar group to review independent study opportunities and finally a group to surface issues and make recommendations on the financial aspects of customer payment for these training courses.

Other resources were brought to bear on this issue. The Air Force Occupational Measurement Squadron was asked to begin a task and training analysis of all jobs (both military and civilian) which fall under the purview of financial management. This is a long term effort and will take 18-24 months. The Training Performance Data Center has built a data base of all financial management courses (from which a catalog has been printed and distributed) and is presently assembling resource and manpower data for all courses in the data base. The Defense Manpower Data Center has fielded a major survey to a random sample of 30,000 persons in financial management career fields to gather additional training and attitudinal data.

Finally, the first of a series of standing functional committees has been chartered in the area of finance and accounting for the purpose of reviewing course curricula, eliminating duplicative course offerings by functional area and performing quality control functions across the discipline. This committee is chaired by a representative of The Defense Finance and Accounting Service. Depending on the successful demonstration of this approach, other functional standing committees will be formed and chaired by other Services or Agencies. The Defense Resource Management Education Center of the Naval Postgraduate School acts as executive secretary for these committees.

Results of this work were brought together in a multidisciplinary symposium designed to refine the original working groups' recommendations in sufficient time for modification of the original decision document as needed. Implementation will continue in 1992 with increased automation of courses, a review of all courses taught in finance and accounting and expansion of this effort to other functional areas of financial management is carried out.

**FMFIA Programmatic Training.** The Office of the Comptroller of the Department of Defense sponsored an Internal Management Control Training Session June 5-6, 1991. The purpose of the two-day session was to convey to IMC focal points and other key personnel recent developments and improved techniques in the implementation of FMFIA. The session featured a variety of guest lecturers both from within the Department and external to the Department such as officials from OMB and Office of

Personnel Management. Topics addressed during the two-day session included OMB's perspective of the FMFIA, expanded role of the DoD Inspector General, initiatives to consolidate reporting in the financial management area, computer security requirements, conducting risk assessments in program areas, recent FMFIA accomplishments at the Department of Health and Human Services, and highlights of several DoD Component IMC programs. Additionally, the Department's Deputy Chief Financial Officer gave a presentation on DoD's implementation of the Chief Financial Officer's Act of 1990. The session was very well attended and received. DoD focal points from the vast majority of DoD Agencies and all the Military Departments participated in this exercise.

Army. Educating Army managers at all levels on the principles and practices of sound management control is at the very essence of Integrity Act objectives. It is also a continuous process - and potentially very expensive. Training has been elevated to the highest priority by OMB and special training courses have been developed by the Office of Personnel Management (OPM) and offered to all Government managers, including Army. Army has long recognized the training requirement, but the cost of external training for at least 50,000 managers would be excessive. In response, the Army's IMC staff has planned and implemented an Army-wide training and assistance effort to achieve a basic understanding and application of internal management controls among the professional leadership of the Army Staff, major commands, installations, and division-size units. The primary focus of this effort is to instill a practical understanding of the GAO Standards and their day-to-day application in all Army operations. This is the basic requirement of the Integrity Act; and every manager is accountable for compliance. During FY 1991 the objective was to maintain and strengthen what was already in place; develop new opportunities for training multipliers; and provide consultant services upon request. Much has been achieved so far, to include laying the groundwork for program initiatives to be realized in FY 1992 and beyond.

Due to constraints imposed by Operation Desert Shield and Desert Storm, and the resultant turmoil and deployment of units to Southwest Asia, the Army's training and assistance program was concentrated on those elements of the Army not directly involved in the conduct of military operations. In FY 1990, the Army concentrated on the training of combat forces in overseas and CONUS locations. In FY 1991, the focus was changed to headquarters elements and those overseas organizations not directly involved in Southwest Asia operations.

Summaries of the key activities contributing to the overall effort to train and equip managers for improved performance of their management control responsibilities follow:

- Intensive training and assistance was conducted at Forces Command Headquarters at Fort McPherson, Georgia. This headquarters had numerous units and individuals (including Reserve Component Units) deployed to Southwest Asia. This training and assistance included approximately 400 top managers not only from Forces Command but from the newly created U. S. Army Reserve Command.
- As a follow-up to extensive training and assistance to the Corps of Engineers and subordinate commands in FY 1990, training was provided to key managers at the Corps headquarters during FY 1991.
- Training and assistance was also provided to Army Staff elements and key Field Operating Agencies. These staff elements included the Office of the Deputy Chief of Staff for Personnel, the Office of the Chief Army Reserve, and the Office of the Chief of Engineers. Field Operating Agencies included the Army Reserve Personnel Center, the Total Army Personnel Command and the Enlisted Records and Evaluation Center.
- Training and assistance was also provided to U. S. forces in Japan and South Korea, which were not directly involved in operations in Southwest Asia. In response to requests from these two commands, the Army Internal Management Control staff provided assistance to their staffs and conducted training for hundreds of managers in both tactical and nontactical organizations, increasing their awareness and understanding of the implementation of this program.
- College Training. The gradual institutionalization of internal management control as an essential part of the curriculum of every Army manager's professional development took three steps forward in FY 1991:
  - Army War College. Beginning with the 1990-91 class, the subject of "Internal Management Control" was incorporated as a study topic that students may choose for their personal research projects. It is anticipated that these student papers will become a useful source of good ideas for improving the Army Internal Management Program.
  - Army Management Staff College (AMSC). This 14-week resident course was designed to provide advanced professional education to selected military and civilian managers across functional areas in the sustainment base environment. The course was offered three times in 1991, its second year of full implementation. A two-hour



block of instruction on internal management control policy and practice was made a part of the permanent curriculum. Each year, this AMSC course trains approximately 300 managers and leaders who will advance and fill key positions. Permanent facilities for the college will be ready at Fort Belvoir, Virginia in 1992.

- Army Management Engineering College (AMEC). The Army's premier course for in-depth preparation of Internal Control Administrators, the Internal Management Control Program and Instructor's Institute was taught at AMEC's Rock Island, Illinois campus. AMEC also began conducting a related course, Causative Research in Solving Problems, intended for high level managers to resolve complex, pervasive material weaknesses. In a separate initiative focusing on the needs of managers in the field, the Army Internal Management Control staff began work with AMEC to develop a course oriented to the needs of installation-level managers that will be taught by AMEC on-site. The objective of this effort is to provide training at all Army installations in two-year cycles (within the constraints of resource availability).

- Management Consultant Services. In an increasing effort to focus assessable unit managers' attention on the merits of improving their knowledge and practice of internal management controls, the Army's Internal Management Control staff is investing in direct consultant services. These consultations are purposefully structured to meet the particular need of the "client." In some cases, informal desk-side briefings or reviews of Integrity Act requirements for top management are sufficient to cause actions leading to strengthened management controls. During this past year, individualized consultations were held with the following Headquarters, Department of the Army (HQDA) elements: Office of the Assistant Secretary for Installations, Logistics, and Environment; Office of the Assistant Secretary for Research, Development and Acquisition; Management Directorate, Office of the Chief of Staff; Office of the Deputy Chief of Staff, Logistics; Office of the Chief of Engineers; and the Senior Staff Council. In addition, the Army's Internal Management Control staff worked closely with the Office of the Surgeon General in developing internal control review checklists for the Health Care area, most notably in the Medical Quality Assurance Program.
- Other New Initiatives. Because of the scarcity of travel money, it has become especially important that the Army's

Internal Control staff adopt alternative measures for sustaining the continuous delivery of quality training services. During FY 1991, work on a videotape for Internal Management Control training continued. Production began late in the fiscal year, with the final videotape expected to be completed during FY 1992. Distribution of this videotape throughout the Army's Internal Control Administrator network and to all installation training service centers is expected to produce substantial training benefits. This videotape will be supplemented with lesson plan outlines, overhead projection charts, and other training aids, which will save considerable preparation time on the part of local administrators and ensure presentation of the Army's internal management control program to all managers. Another economy measure initiated during FY 1991, was the use of teleconferencing. This approach was tested at FORSCOM Headquarters and was made available at all subordinate installations having the appropriate facilities. The test was very successful and allowed the same essential "give and take" that occurs at on-site visits.

Navy. The Department of the Navy is on target with its Management Control Program training initiative which began in FY 1989. This year, Department of the Navy provided its train-the-trainer course to managers and coordinators in Pearl Harbor, Guam, and Japan. More than 100 managers and program coordinators were trained in these overseas visits. In Continental United States, the Management Control Program training was conducted in Mechanicsburg, Pennsylvania, Norfolk, Virginia, and the Washington, D.C. areas with over 200 managers and coordinators receiving training. Additionally, the Department of the Navy Management Control Program continues to be a segment of the Navy Practical Comptrollership (PCC) Course, offered at the Navy Post Graduate School in Monterey, California. The PCC is offered seven times a year to mid-level civilian accountants, budget analysts, and junior and senior level military personnel. Over 200 individuals received extensive instructions in this training forum in FY 1991. The Department of the Navy provides Management Control training to prospective commanding officers prior to assuming command responsibility at their next duty station. This training in effect enables these commanders to keep abreast of the most recent program change and fundamental requirements of the Department of the Navy Management Control Program.

The Department of the Navy is continuing to conduct the Department of the Navy Management Control Training Program concentrating in those locations with the greatest need. Currently, plans are being made to conduct training for the managers and coordinators of the Commander in Chief, U.S. Navy Europe community.

Air Force. In FY 1991, Air Force FMFIA training was elevated to priority-one status. As the year closed, more Air Force personnel were familiar with the IMC Program (FMFIA implementation) than in all the years since passage of the FMFIA. The resurgence of the program depended upon a quick and basic indoctrination in IMC concepts. The Air Force has been immensely successful in revitalizing the program despite the innate difficulty and abstraction of the subject matter. Much more needs to be done, however, in the way of standardizing training materials, clarifying procedures, and applying techniques of establishing and testing internal controls.

For the most part, Air Force training in FY 1991 centered on program orientation, the segmenting of assessable units, developing a management control plan and the vulnerability (risk) assessment rating process. In orientation sessions, we made a pointed effort to emphasize the statutory root of the IMC Program. We undertook to inculcate the view that the IMC Program is the overall umbrella for the managerial review, assessment, and evaluation process; that other institutional Air Force review activities could be incorporated therein as acceptable IMC alternative methodologies. In short, we strived to set a new basis for the IMC program in the consciousness of Air Force managers.

Every facilitator in the IMC network was given training on the fundamentals of the program through either explicit written guidance or face-to-face instruction or both. Since the program was decentralized, IMC focal points were given parameters for the establishment of assessable units. Each assessable unit was to relate to a single responsible manager; be in the organizational chain, sized large enough to be meaningful, yet small enough to be measurable; and, configured for the manager to easily take an active role in the review and rating process.

Training in the development of the management control plan was also provided using examples and a sample format. To illustrate the application of IMC principles to the risk rating process, a case study approach was presented in a workshop mode with questions and answers following. Air Staff and Secretariat focal points passed down this training to their assessable unit managers. In addition, the IMC program director conducted separate tailored briefings when requested by individual Air Staff organizations.

All major commands reported that their IMC focal points conducted training for assessable unit managers. The predominant forms of training reported were mass briefings, group training sessions, reviews of regulatory guidance material, training pamphlets, checklists, base level newspaper articles, etc. Topical IMC responsibilities for new unit commanders were included in commanders orientation courses. Also, the IMC program director made several trips to the field

to present course material and the Headquarter's perspective to large audiences at command-wide training conferences or seminars.

Some major command focal points attended formal external courses and seminars sponsored by the Department of Agriculture Graduate School, the Office of Management and Budget at the FBI Academy and the Defense-wide seminar presented by the DoD Comptroller's office.

Commensurate with the revitalization of IMC activities, the Financial Management Secretariat established a dedicated office for development of IMC policy and direction of the program. Personal instruction, help and positive reinforcement are available instantly to all focal points who wish to avail themselves of a direct access "hot line" to the program director.

In FY 1991, work began on the first prototype of a structured self-prompting computer based training module on internal management control. The module will be further developed in the coming year to produce an orientation and a step-by-step guide through IMC implementation procedures and reports. We are designing this advanced tool to be interesting, informative, and user friendly to stimulate accomplishment of the IMC objectives.

Selected Smaller Components. A representative sampling of training provided by smaller DoD Components appears below.

Joint Staff. Training by Joint Staff was conducted on both a group and an individual basis as required. As part of that effort, annual briefings to the Resource Management Council alerted senior Joint Staff management to the importance of the IMC Program. Quarterly briefings on the status of the Joint Staff IMC Program open findings and program status were provided to the Vice Director, Joint Staff, who also serves as the Joint Staff Inspector General and is the Joint Staff IMC Senior Responsible Official.

The Joint Staff directorate IMC points of contact, and functional managers of assessable units were provided group training on the program in general, and more specifically on how to document an assessable unit, how to prepare input for the annual statement of assurance, and how to accomplish a risk assessment. Risk assessment questionnaires and guidance included in the administrative instruction are provided during the training session.

Newly assigned directors and deputy directors of Joint Staff directorates were offered individual briefings on how the Joint Staff IMC program works, what assessable units their organization is responsible for, and what, if any IMC problems exist within their directorate. Briefing materials were

provided to their executive officer when a briefing is not possible. IMC briefings are also offered to senior management for meetings of division chiefs.

Individual training on the IMC process was provided to new personnel assigned the responsibility of directorate IMC point of contact or functional manager of an assessable unit. This training consists of a general background with specific information about the directorate program.

IMC review teams were provided specific training on how to conduct a review, and are also provided a copy of the Joint Staff Internal Control Review Handbook for reference during the process.

Defense Information Systems Agency (DISA). Progress in training and program implementation reflected an environment where management and employees of Defense Information Systems Agency (DISA) are being challenged to maintain operations and improve quality with less resources. The implementation of the internal control program was no exception. The initial training philosophy within DISA was to centralize training to ensure consistency and quality. Increasing workload makes this approach no longer practical. Therefore, training responsibility is being shifted to directorate focal points within the agency and training and support is provided to these people. Focal points were given prepackaged training materials to inform their respective staffs of program requirements and their responsibilities as employees and managers. Meetings were held with directorate focal points to keep them informed of program changes. New managers are briefed on the program by their respective focal point. While this approach dilutes central control over the training process, DISA believes that we can still ensure managers are adequately trained in internal controls. To ensure that quality is maintained, DISA is presently working on developing a video presentation to start out its training sessions to aid managers in fully understanding their responsibilities for internal control.

Defense Investigative Service (DIS). DIS enhanced internal control oversight in the information resources area by implementing Life Cycle Management (LCM) training. The DoD Information Resource Management College offers training in LCM. In FY 1991, four staffers from the Office of Information Systems Management and Planning went through the LCM training. LCM training for new hires in Office of Information Systems Management and Planning is scheduled for FY 1992.

The DIS Inspector General, conducted a continuing evaluation of the DIS IMC process during its General Inspection of the New England Region. The DIS IG is used effectively throughout the agency to stress the need for all components to maintain efficiency and to prevent fraud, waste, and abuse. The DIS Inspector General reviews confirm that the DIS IMC Program and

associated training has been carried out in a reasonable and prudent manner and that all DIS regional and headquarters components substantially comply with the operating requirements of the program.

Although the DIS IMC Program is in compliance with DoD, OMB, and Comptroller General guidelines, DIS plans to further enhance its IMC Program through cross training and expanded emphasis of the importance and usefulness of the IMC Program.

**FY 1991 FMFIA Implementation Enhancements.** Throughout FY 1991 DoD components continued to refine actions taken to implement FMFIA and to improve oversight of DoD activities through the use of sound internal management controls. Provided here is a summary presentation of some of the more notable programmatic and internal control enhancements.

**Army.** Like other Federal agencies, Army has a sound system for identifying and tracking material weaknesses through verified corrective actions. However, Army has done and plans to do much more to stop evolving weaknesses before they become material, and develop improved techniques for exposing the root causes of these problems to ensure that corrective actions will truly prevent their recurrence. To this end, Army began a project five years ago to develop an all-source catalog of internal management control deficiencies. The result is a set of "Reminder Listings" that has evolved to the point where recurring problems and their significance can be isolated for in-depth research. Attacking these problems (identified by the General Accounting Office, the Department of Defense Inspector General, the Army Audit Agency, the Army Inspector General, and top Army managers) will serve to demonstrate Army's resolve to stop recurring problems. Problems such as excess stocks, property accountability, and an array of procurement problems have been frequently reported and act to cloud public and Congressional opinions of Defense managers.

In a connected project, the Army's Internal Management Control staff developed a formal approach to the practical application of Causative Research In Solving Problems (CRISP). This has been fashioned into a professional course of instruction by the Army Management Engineering College. This four-day comprehensive training course, aimed at managers and auditors and presented several times a year by the College, will go a long way to achieving the root-level corrective actions needed to permanently stop significant problems.

Highlighted below are some of the more significant programmatic and internal control improvements made in the Army during FY 1991.

U.S. Army Forces Command (FORSCOM). Headquarters FORSCOM and subordinate units played a significant role in deployment to Southwest Asia during FY 1991. In this context, command

emphasis on Integrity Act responsibilities was demonstrated through the following actions:

- Training was conducted jointly by a Headquarters, Department of the Army representative and the FORSCOM Administrator to 450 top commanders/executives/ managers at the headquarters.
- A video conference training session was conducted for all subordinate installations and major troop units on other installations.
- Comprehensive reviews were conducted for security programs in the following areas: Information Systems; Counterintelligence; Counter terrorism; COSMIC/NATO; and personnel and industrial systems. Additionally, emphasis was placed on the control of copyrighted/protected software, accountability of personal computers and computer accreditations.
- Field organizations used IMC Program indicators in their review and analysis function; included IMC Program in their Command Inspection Program by using Internal Control Review Checklists in their inspections; and, performed special audits of expenditures during Desert Shield/Desert Storm to prevent fraud, waste and abuse.

#### U. S. Army Materiel Command.

- Carefully tracked and accounted for Operation Desert Shield/Storm expenditures.
- Developed and implemented the Automated Requisition Tracking System during the surge of Operation Desert Shield/Storm which insured accurate, daily reporting of incoming requirements from organizations worldwide.

U. S. Army Training and Doctrine COMMAND (TRADOC). TRADOC continued its aggressive training program and trained over 2,000 managers on their responsibilities under the Integrity Act. TRADOC installations and activities identified 281 material weaknesses. Of these 234 have been corrected and the remainder are in the process of being corrected. Nine weaknesses were reported to the Secretary of the Army.

U. S. Army Intelligence and Security Command (INSCOM). INSCOM trained nearly 1,000 managers on FMFIA provisions and provided guidance to dispersed organizations on how to complete internal control reviews using the Department of the Army-developed checklists. Seven weaknesses were reported to the Major Command but none were judged significant enough to warrant reporting to the Secretary of the Army.

U. S. Army Criminal Investigation Command (USACIDC). The following alternative internal control measures have helped assure that this Command possesses a viable, ongoing internal control program: the Major Command Inspector General requires inspectors to review the internal control program implementation during inspections; in the logistics arena, conducted two Equipment Surveys and one Command Logistics Review Team visit; and, the USACIDC Internal Review Team conducted on-site reviews of 11 USACIDC subordinate elements. Through the use of Internal Review visits, selected elements of USACIDC were examined to ensure that internal control systems are operating as intended in AR 195-4, Use of Contingency Limitation .0015 Funds for Criminal Investigation Activities. Reviews include examination of vouchers, subvouchers, and supporting papers that document .0015 funds spent to ensure that expenditures are properly administered and authorized. Further, the scope of the USACIDC Internal Review Program has been expanded and is no longer limited to internal reviews on contingency funds. This has provided the Command more reasonable assurance that internal management controls are in place and working on high risk areas for fraud, waste and abuse.

U. S. Army Health Services Command (HSC). Several initiatives have been undertaken within the Command to improve internal controls. These initiatives include revision and publication of the HSC Supplement to AR 11-2 and providing briefings to incoming medical treatment facility activity commanders as a routine part of their pre-command orientation.

Assistant Secretary of the Army (Financial Management).

- Monitored the effectiveness of testing and readiness to field two new Defense Finance and Accounting Service systems and Regionalization of Accounting and Finance Offices.
- Published the Cost Guidance and Procedures Internal Management Control Review Checklist for Army Regulation R 11-18. The Cost and Economic Analysis Program Guides will be completed in early FY 1992. These guides will be published as Department of the Army Pamphlets to provide the "how-to" guides in cost and economic analysis.
- Worked with the Army Management Engineering College (AMEC) to restructure the Army's premier course on the Internal Management Control Program taught at AMEC's Rock Island, Illinois campus. The restructured course is oriented towards the needs of installation-level managers. AMEC plans to provide training at all installations on a two-year recurring cycle.



U. S. Army Office of the Assistant Secretary (Research, Development and Acquisition).

- Completed and published a 55 page appendix to the Army Federal Acquisition Regulation Supplement which was developed in large part to correct previously identified material weaknesses in contract administration of support service contracts. The appendix, which applies to service contracts valued above \$25,000, establishes policy, assigns responsibilities and prescribes procedures to aid acquisition personnel in performing their post contract award duties.
- Published guidance and new regulations directing remedial action to correct weaknesses in the use of Time-and-Materials contracts and post award surveillance.
- Published guidance for the Army Staff and commanders directing remedial action to correct defects when obtaining contracting support outside of customary organizational arrangements.
- Published an expanded contracting checklist to reinforce existing control measures for small purchases.
- Executed a Procurement Management Review program to assess the effectiveness and efficiency of contracting activities and provided oversight of PMR programs used by heads of contracting activities.
- Implemented procedures to preclude conflicts of interest in executing the Army Science Board program. Procedures were validated by the President's Office of Government Ethics as meeting or exceeding ethical review requirements.

U. S. Army Office of the Deputy Chief of Staff for Intelligence. Implemented a new standardized reporting format in its assessment of Special Access Program (SAP) security, and is testing a new methodology format for use in reaching its assessment of the level of threat posed to SAPs by foreign intelligence services.

Department of the Army, Inspector General (DAIG). DAIG reviewed audit follow-up inspection results which included assessments of installation compliance with the IMC Program. When inadequacies were found, commanders were informed so that corrective actions could be implemented. DAIG audit follow-up inspections in the following commands addressed and reported on the IMC program: U. S. Army Europe, Forces Command, Army Materiel Command, Office of the Chief of Army Reserve, National Guard Bureau, Corps of Engineers, and The Surgeon General. IMC programs will continue to receive emphasis during FY 1992.

U. S. Army Office of the Deputy Chief of Staff for Logistics (ODCSLOG). A group research project to determine the best method to apply Total Quality Management (TQM) to the IMC Program was approved by the Army Logistics Management College. The student group is currently identifying and evaluating various approaches using a variation of the Delphi Technique. The result of this effort will be incorporated in the planned application of TQM within ODCSLOG and is expected to measurably enhance the existing IMC Program.

Navy. During FY 1991, 25 quality assurance visits were conducted at subordinate Navy commands. These visits were conducted to determine whether the management control program was completely implemented and to provide assistance where needed. To emphasize management attention and support for the management control program, managers were instructed during training and quality assurance reviews to consider all areas of responsibility such as operational and mission areas as well as administrative areas in their inventory of assessable units. As a result of these reviews, program implementation problems were identified and corrective actions have been taken or will be initiated during FY 1992.

The Navy continued to emphasize on-site Quality Review Program to ensure that the statutory intent and implementation principles of the Management Control Program are being adhered to, that implementation problems are identified and corrected, and that all improvement initiatives are recognized and incorporated into the overall program.

The Navy explored the feasibility of automating the requirements of the Management Control Program on floppy disks to achieve standardization and uniformity in performing Vulnerability Assessments, Management Control Reviews, and reporting. Several Department of the Navy components have already undertaken this effort for their own activities. This effort could result in a continuous training mechanism.

Air Force. A new assessable unit structure assures IMC program coverage in all Air Force command and staff organizations at Headquarters and in the field. Moreover, the coverage is predicated on an organizational grid that identifies a responsible manager for every assessable unit. Our concept of operations is that each manager take an active part in the review process, not simply sign on the dotted line.

One of the advantages of the new alignment, a juxtaposition of functions with organizations, is that it is readily adaptable to a reorganization or shift in functions. During FY 1991, the Air Staff was restructured to clarify its policy making role and

the functional execution role of Field Operating Agencies (FOA), those staff extensions of Headquarters located outside the Pentagon doing non-policy work that cuts across command lines.

Another focus of the Headquarters restructure was the alignment of counterparts in field and staff functions to provide policy center-points for functional Headquarters oversight of diverse field activities. As a result, several new staff elements were created and were immediately enveloped in the IMC process. Also, reporting channels were modified for our internal supporting statements---the building block process we use as a basis for the Secretary's year end statement. Headquarters principals having oversight responsibility for field activities now include FOA coverage in their assurance statements to the Chief of Staff and the Secretary.

A key feature of our improved IMC coverage is the decentralization of the program. IMC is a management tool best applied locally at the source of activities being reviewed. It follows, therefore, consistent with decentralization, that field organizations were given the leeway to develop assessable units most suitable to their needs and charged with the development of a formal management control plan to schedule events.

Central control and overall policy and program direction continue to emanate from the Financial Management Secretariat. As well, performance indicators developed through periodic program evaluation, and quality assurance standards remain a function of the Senior Responsible Officer.

Although we are still in the throes of program redevelopment, decentralization has accomplished its purpose. Managers and program coordinators are more involved with the process than ever before. Positive feedback is beginning to appear that will be invaluable as refinements are inserted and the program continues to evolve and mature.

FY 1991 was a year of measurable progress and extension of program coverage. We see that internal management controls are necessary and worthwhile and that the program as a whole can serve a useful purpose. The Air Force will continue to develop and implement an IMC program that is practical and flexible enough to establish and sustain a level of implementation workload balanced between risks and oversight objectives.

Defense Finance and Accounting Service (DFAS). With its establishment in FY 1991, DFAS is now the functional proponent for the internal controls applicable to the vast majority of financial management systems in DoD. In addition to the development, institutionalization, and implementation of an aggressive IMC Program, DFAS has accomplished the following:

- Standardized Assessable Units. Standardized assessable units have been developed for the use of all DFAS Centers which incorporates all functions, programs, and operations conducted or performed by DFAS. These standardized units were developed in a manner which optimize the central control of the scheduling, reviewing, and reporting on assessable units while maximizing the prerogatives of the individual assessable unit managers. Based upon vulnerability reviews and management needs, individual assessable units will be scheduled for simultaneous review DFAS-wide and the review results analyzed and reported on a DFAS-wide basis.
- IMC Program Operating Manual. An operating and procedural manual has been developed for the DFAS IMC Program. This manual provides the policy guidance for the execution of the program, operating instructions for conducting all program operating requirements, and formats for documenting and reporting.
- Finance and Accounting Policy and Systems. Internal controls in the Army Finance and Accounting Network were strengthened. Numerous policies and procedures to improve internal controls over the finance and accounting network were published. Reconciliation procedures to identify differences between General Ledger and Expenditure/Property Reports were developed which will result in more accurate reporting in the future. General Ledger updates were enhanced to incorporate Department of the Army adjustments based on data received from outside the Army finance and accounting network.
- Military Department's Accounting and Finance Network. The Internal Management Control Program (IMCP) is managed, recognizing DFAS as the Executive Agent for all DoD Components accounting and finance responsibilities, including the DFAS Center and the Military Department's Accounting and Financial Networks. Current DFAS personnel have exercised functional jurisdiction for the IMCP over these Networks for many years. In September 1991, the Denver Center was formally granted functional control of the Air Force Network for the IMCP by the Principal Deputy Assistant Secretary of the Air Force, Financial Management. Similar formal arrangements will be established with the Army. These formal authorities for network operations are expected to improve program coverage in the future.
- Evaluations. DFAS is committed to improving its Management Control Program and to strengthening controls throughout all programs and functions. As a result of the establishment of DFAS, the Washington Center recognized a weakness in the inventory control for minor

property with a value of over \$500.00. Action was immediately taken to contract for the inventory and marking of all minor plant property with a value of 500 or more dollars. This inventory is ongoing and will provide a significant accomplishment for the FY 1992 report period.

- Tracking System. An internal weakness tracking system that monitors any internal control deficiency that is found from internal audits, Management Control Reviews, external audits, or any other source was developed. During 1991, we made considerable enhancements in the system to improve its usability to our managers, as well as to auditors or others who may need to research specific items. For each item, we maintain the following information: assessable unit, source of finding such as internal audit, date of finding, description of the specific deficiency discovered, a narrative of the risk associated with the deficiency, the type of control needed, the reason the control is needed, the specific action required to resolve the deficiency, and the proposed target date for completion.

Defense Logistics Agency. Defense Logistics Agency Regulation (DLAR) 5010.4, IMC Program, was revised and published on October 12, 1991. Revisions to DLAR 5010.4 include the headquarters-directed risk assessments and internal management control reviews (IMCRs), the modified definition of a material weakness, the requirement to include material weaknesses requiring over 6 months to correct in the Strategic Plan, the requirement to perform IMCRs on all event cycles, the revised management control plan, coordination requirements on audit reports, and procedures for reporting costs and benefits on material weaknesses.

Defense Mapping Agency (DMA). Improvements continue to be made to the DMA IMC Program. The following Defense Mapping Agency Instructions (DMAINST) were updated during the fiscal year:

- DMAINST 5010.37, "Efficiency Review, Position Management, and Resource Requirements Determination," July 17, 1991.
- DMAINST 5010.38, "Internal Management Control Program," July 2, 1991.
- DMAINST 7600.2, "Audit Policies," July 2, 1991.
- DMAINST 7650.2, "General Accounting Office Audits and Reports," July 19, 1991.
- DMAINST 7650.3, "Follow-up on General Accounting Office, DoD Inspector General, Internal Audit, Material Weaknesses, and Internal Review Reports," July 19, 1991.

These revisions updated reporting requirements, clarified responsibilities for verification of corrective actions, specified follow-up responsibilities, and designated DMA points of contact. DMA has also completed the revision of DMA Guide 5010.38, "Guide for Conducting IMC Risk Assessments," October 18, 1991. The streamlined revision of this guide facilitates the risk assessment process by providing succinct, step-by-step guidance to assist busy managers in evaluating their organizations. The guide also incorporates functional changes in management analysis responsibilities and procedures resulting from reorganization of the Comptroller function. DMA also continues to ensure that position descriptions and performance standards include IMC responsibilities.

Uniformed Services University of the Health Sciences (USUHS). USUHS has taken several actions to institutionalize the program, for example, USUHS will incorporate IMC into a new program of Continuous Quality Improvement. Other management actions that further assimilated IMC into USUHS systems included assignment of an Assistant Deputy Dean for Executive Affairs to manage daily USUHS operations; employment of a new Chief of the Civilian Personnel Office; hiring a new staff member to review and evaluate USUHS programs, with significant duties in the IMC program; three USUHS requested visits by the staff of the Army Management Engineering College to evaluate the IMC program and assist in rewriting the USUHS IMC instruction, and to review budget procedures and reporting; and the ongoing use of acknowledged experts in the administrative areas of manpower surveys, security management and property management who include IMC as part of their review.

Ensuring Program Accountability and Results. The narratives contained in this section refer to the various methodologies, procedures and reports employed to ensure that program accountability and results comply with Departmental standards for FMFIA implementation. The following list identifies many of the information sources DoD Components have been directed to employ and are used to identify control weaknesses. Many of these sources are subsequently used to assess corrective actions.

1. Programmatic Risk Assessments
2. Programmatic Reviews and Evaluations
3. DoD Component Inspector General or Audit Findings
4. DoD Component Inspections
5. DoD Inspector General Reports, Reviews and Inspections
6. General Accounting Office Reports and Reviews

7. Nonprogrammatic Internal Reviews
8. Quality Assurance Reviews
9. Productivity Statistics
10. Defense Regional Interservice Support Studies
11. "Hot Line" Reports
12. Procurement Management Reviews
13. Congressional Reviews and Hearings
14. Defense Management Report Initiatives
15. Corporate Information Management Initiatives

In addition to the foregoing, there are other mechanisms which further enhance program accountability. The annual reporting and monitoring provided by the Management Control Plan actions provide reassurance that compliance with the mandatory Departmental programmatic mechanisms far exceed the minimum OMB specified requirements. DoD Components provide a semiannual update status report on all control weaknesses reported as uncorrected at the close of the previous fiscal period (prior year's Annual Statement of Assurance). This information serves as the basis for a report to the Department's FMFIA Senior Responsible Official (the DoD Comptroller) and to other senior Department managers.

The Annual Statement of Assurance is reviewed and coordinated by the affected senior managers in the Office of the Secretary of Defense, the Military Departments and by the Office of the DoD Inspector General before it is provided to the Secretary for signature. This review by Departmental policy makers provides assurance of continuity throughout the Department in the context of functional responsibility.

The DoD Comptroller staff conduct IMC Focal Point meetings and IMC field evaluations to assure compliance with program requirements and to assess actions taken to resolve problems reported in the high risk areas. While verification of weakness corrective actions is an ongoing process throughout the Department, a reporting process designed to formalize the certifications is now finalized. This formal reporting process has been implemented; further actions in this area are planned for FY 1992.

## **SPECIAL INTEREST AREAS**

The most pertinent special interest areas are the OMB identified FMFIA high risk areas. Narratives addressing the high risk areas can be found at the OMB designated sections of this Annual Statement (Enclosure C), which is designed to report specifically on those areas. The narratives contained in this special interest section reflect specific management actions or initiatives which have played a vital role in the development and enforcement of internal management controls Department-wide. In addition, several management issues gained special attention because of interest expressed by Congress, special DoD or OMB inquiry, or through press coverage. Attention demanded by some issues is sometimes inconsistent with the limited magnitude of the related problem; however, in order to be responsive to the genuine concern expressed by responsible parties, some of the following narratives address those concerns.

**High Risk Areas.** The Department has five "high risk" areas; they are:

- Financial Accounting for Real and Personal Property
- Supply Operations
- Contract Administration
- Information Technology/Automated Data Processing Security
- Contracted Advisory and Assistance Services

The Department has placed a high emphasis on the resolution of these problem areas. References to weaknesses in these high risk areas are contained throughout this Annual Statement of Assurance and individual narratives are contained in Enclosure C of this statement. These extensive narratives address the high risk areas in substantial depth. In a preceding narrative, the use of FMFIA programmatic field evaluations to place a heightened emphasis on the resolution of these high risk areas was summarized.

**Foreign Military Sales (FMS).** This brief narrative is provided because FMS was considered a high risk prior to the preparation of the FY 1990 DoD Annual Statement of Assurance. DoD reported this high risk area as resolved in FY 1990. During the year, significant management improvements were realized throughout security assistance. Following the strong gains made in accounting controls over the last few years by all elements of DoD, security assistance, as noted, was eliminated as a high risk area in FY 1990. The Defense Security Assistance Agency directed the reconciliation of FMS Trust Fund balances and we successfully reduced the unreconciled amount from over \$600 million in 1986 to less than \$100 million at September 30, 1991. And, while our gains are now slower, we will continue to reduce



the unreconciled balances. Together with the Military Departments and the Defense Finance and Accounting Service we have added the discipline to the accounting controls to preclude recurrence of the large unreconciled balances. Since 1989, we have added no new unreconciled amounts, and we have closed over \$5 billion of cases in balance. The improvements which were implemented obviated the need for a major accounting system redesign effort. The Department saved over \$40 million in out-of-pocket costs which would have been required for the new system. The existing FMS accounting system was modified to meet requirements for systems conformance to General Accounting Office standards.

Defense Management Report. Overview. In his February 1989 address to Congress, President Bush called for DoD management improvements. In response to this request, Secretary of Defense Dick Cheney completed the Defense Management Report (DMR) in July 1989. The DMR represented the results of an intensive internal management review and presented an agenda for change designed to implement fully the Packard Commission recommendations, improve substantially the acquisition process, and manage more effectively the Nation's increasingly limited Defense resources.

The DMR set a goal of achieving savings of \$30 billion beginning in FY 1991 and continuing at least to FY 1995 to achieve six broad goals:

- Reduce overhead costs while maintaining military strength.
- Enhance weapon systems program performance.
- Reinvigorate the planning and budgeting system.
- Reduce micro-management.
- Strengthen the defense industrial base.
- Improve observance of ethical standards in government and industry.

DoD's leadership is committed to producing fundamental, long-lasting changes in the way the Pentagon does business. The DMR differs from other Defense management studies in that the review was not conducted by an outside group of experts. It is the result of an extensive internal review of Defense management practices and structures. The people - both civilian and military - who participated in the review are the same people who are now implementing its recommendations.

The underlying philosophy guiding DoD's management improvements is to centralize policies, procedures, standards, and systems while decentralizing their execution and

implementation. This has led to major organizational changes that are improving the Department's operational effectiveness. The Defense Department also is reducing the cost of doing business by cutting excess infrastructure, eliminating redundant functions, and initiating common business practices.

DoD's approach to achieving DMR efficiencies emphasizes the following:

- Develop management efficiencies that do not require force level or strategy changes.
- Maintain the level and improve the quality of management support, while reducing the costs.
- Use technology, including ADP systems and communications, to reduce costs.
- Increase the accountability of program managers by increasing the visibility of total program costs and by placing the costs of doing business under the control of people executing the programs.
- Use budget savings realized through management efficiencies to meet DoD's budget target.

With these guidelines in mind, the areas of Logistics, Administration, Base Operations and Facility Management, Automated Support and Information Systems, and Finance, Procurement and Contract Management have been identified where management efficiencies will produce savings.

The Department has estimated that DMR management initiatives will save \$70.9 billion by FY 1997, with corresponding reductions of approximately 50,000 civilian and 44,000 military positions. Defense budgets are declining and reductions in force structure are being made to stay within spending limits. However, because efficiency is being improved through initiatives to implement the DMR, more capabilities and more assets are being retained despite reduced resources. If DoD had not embarked on the DMR initiatives, the Department would have had to cut forces and program below levels considered prudent to support viable national security strategy.

Defense Management Report Savings Initiatives. DMR methodologies require that a comprehensive review of the DoD structures and practices be conducted with a goal of identifying savings. This DMR tasking was based on lessons learned by large private firms, which when faced with management and organizational "symptoms" comparable to DoD's, were able to overcome their problems and realize dramatic, simultaneous productivity improvements and cost reductions. The underlying philosophy in the cost reduction part of the DMR effort has been to maintain the quality of support at significantly lower cost.

Further, if support costs can be reduced by simply decreasing the cost of doing business, this will create additional flexibility in the diminishing fiscal environment.

The DMR process began with the FY 1991 budget. The Department proposed initiatives to save about \$39 billion over the FY 1991 to FY 1995 time period. By Service, the distribution of that \$39 billion savings is \$10 billion for Army, \$12 billion for Navy, \$9 billion for Air Force, and Defense Agencies \$2 billion. The consolidation studies amounted to \$6 billion of the total.

In examining our initial savings estimates for six major functional categories, after a year, our current estimates of overall savings for these initiatives are only reduced by \$3.3 billion. This loss of savings mainly represents adjustments for program changes. For example, \$1.4 billion was reduced from the Navy large lot procurement initiative because of lower production quantities of warships.

In conjunction with the FY 1992/1993 budget, the Department proposed DMR initiatives estimated to save about \$13 billion over the 6 years period FY 1992 to FY 1997.

Taken together, FY 1991 and FY 1992 initiatives will save the Department about \$70 billion when the effect of both these rounds are extended through FY 1997 - 17 percent of the \$410 billion reduction to the DoD baseline used by the budget summit participants.

The important note to remember here is that of this \$410 billion reduction, DMR initiatives make up 17 percent of the savings. The remaining comes from force structure reductions and program cuts, as well as from budget reviews with pricing adjustments. So you can see that if DoD had not embarked on the DMR initiatives, the Department would have had to cut forces and programs even more drastically than the reductions already proposed in the President's budget.

Some of the DMR initiative highlights follow:

- Clothing and Textiles. This initiative improves the management of clothing and textile commodities by consolidating the preparation of clothing specifications within the Defense Personnel Support Centers. Over 200 items which serve a similar function for each Military Department will be standardized. Where appropriate, DoD is replacing military unique items with items that are commercially available.
- Reducing Transportation Costs. The Department spends \$2 billion per year on transportation costs. Some of the innovations that have taken place in the private sector will be incorporated into DoD operations. This includes

the establishment of regional freight consolidation centers that will operate much like the Federal Express hubs; modifying the priority system to ensure that only those items that are urgently required are shipped separately; shipping material directly from vendors to users and utilizing a "guaranteed traffic" program that includes competitive awards to carriers to provide scheduled movements on specific routes in return for reduced rates.

- Depot Maintenance. In a coordinated effort, the Military Departments are working to improve the efficiency and reduce the cost of the Department's extensive depot maintenance operations. The Departments are improving maintenance productivity as a whole by increasing the level of competition for maintenance workloads. Also, each of the Services is making intraservice improvements. For example, the Navy is creating two aviation industrial hubs. The Army plans to consolidate various maintenance workloads, and the Air Force will assume maintenance responsibilities for Navy C-130s and some of the Navy landing gear workload. The Assistant Secretary of Defense for Production and Logistics monitors these activities to gain greater competition among the Services and with the private sector, and to improve DoD maintenance productivity. This initiative will save \$6 billion.
- Supply System. With an estimated savings of \$25 billion, several initiatives will reduce costs throughout DoD's supply system, and at the same time, maintain and improve support to the Armed Forces. DoD will consolidate general supply depot distribution activities within the Continental United States. This will save base and headquarters overhead costs, construction and systems development costs, and inventory and transportation costs. Also, supply depot consolidation will improve the use of DoD's existing supply capacity. The costs to operate the supply system will be lowered by reducing inventories, improve the management of repairable items, move the management of one million consumable items to DLA, better control transportation costs, and give managers more control over the resources needed to do their jobs.
- Commissary Consolidation. The commissary operations of the Army, Navy, Marine Corps and Air Force has been consolidated into the Defense Commissary Agency headquartered at Fort Lee, Virginia. This new agency will give DoD the kind of efficiencies and economies available to large grocery store chains. It will produce lower costs to the government and members of the Armed Forces and their families, and improve service. Savings will be about \$413 million.

- Base Engineering Services. This initiative will achieve savings and efficiencies in base engineering services by consolidation of these programs. This initiative will establish Public Works Centers at major military installations nationwide to provide a single source for base engineering services and real property maintenance support. Consolidation will take place through integration of programs at military bases in close proximity to each other. These programs will also be improved with an orientation toward a business-management basis for operations. The estimated savings for this initiative through FY 1997 are \$1.5 billion.

Relationship Between the Federal Managers' Financial Integrity Act Program and the DMR Process. A key event in DoD's implementation of the Federal Managers' Financial Integrity Act, through the IMC Program, has been the OMB identification of the following high risk areas in DoD:

- Supply Operations
- Contract Administration
- ADP and ADP Security Information technology
- Contract Advisory and Assistance Services
- Financial Accounting for Real and Personal Property

For each of the high risk areas in DoD, there are one or more DMR initiatives associated with these areas. Although the goal of the DMR initiatives is broader than the identification and correction of control weaknesses, management improvement in these functional areas which come about as a result of DMR initiatives will positively impact the correction of control weaknesses in these functional areas.

Some examples of DMR initiatives that affect the high risk areas include:

**Supply Operations:** The Supply Depot Consolidation initiative will eliminate over 5,500 personnel authorizations, the Depot Maintenance consolidation effort will achieve over \$3.9 billion in savings, the DoD supply inventory will be reduced by over \$20 billion, and the ability to use commercial products and practices will save countless manpower and dollars.

**Contract Administration:** The first structural realignment resulting from the DMR was the consolidation of contract administration services within the Defense Contract Management Command (DCMC) under the Defense Logistics Agency (DLA) - a separate report on DCMC is provided in this Statement. This includes the consolidation of the Military Department's plant representative offices, as well as other contract administration functions such as processing payments. The streamlining from

nine regions to five districts has already reduced overhead and payroll costs, provided uniform procurement policies, ensured the independence of the contract administration offices, and upgraded the quality of our contract administration work force.

**Automated Data Processing and Automated Data Processing Security Information Technology:** At the heart of the Department's ability to conduct its business functions effectively is the need for accurate, timely and comprehensive information. The Corporate Information Management (CIM) initiative will strengthen the Department's ability to apply data processing, telecommunications and information management capabilities effectively in the accomplishment of its missions. The objective of CIM is to increase the effectiveness of information management in the Department while reducing its cost. This is accomplished by simplifying the business process before automating. In many instances achievement of the CIM goals is integral to the achievement of other DMR initiatives.

**Contract Advisory and Assistance Services:** The Congress, the OMB, and the DoD Inspector General have all indicated that the management, reporting and budgetary controls over contracted advisory and assistance services (CAAS) need strengthening. In addition to reducing CAAS spending in the budget, other steps are being taken to improve management controls over these services, and efforts are underway to strengthen various facets of CAAS management. Moreover, efforts are being directed at expanding the visibility of CAAS via the budget review process, clarifying and refining definitions in this area, educating DoD managers, users, and procurement personnel regarding documentation, approval, and reporting requirements.

**Financial Accounting for Real and Personal Property:** DFAS, in conjunction with developing a systematic financial accounting data base for all DoD property, will develop a process for identifying the value of GFM items entrusted to contractors. The objective of establishing a process to independently record the value of this property is to improve internal and management controls over these DoD assets. These improvements will achieve savings by providing more accurate and current information to more efficiently manage these DoD resources. In addition, savings could accrue by eliminating waste from misuse and recovering losses from property provided to contractors.

**FY 1993 DMR Initiatives.** During the FY 1993 DMRD/Budget process, there will be two thrusts in the fall:

- New Service specific DMR initiatives will be developed by the Military Departments based on management actions and show related savings as part of the FY 1993 budget.

- FY 1991/1992 DMR initiatives will be revised to reflect approved budget adjustments and to provide additional implementation guidance where this is needed.

Next Steps. The Department considers it vital that the Military Departments and Defense Agencies continue to implement their management initiatives. In this regard, the Department has an active program that monitors, on a quarterly basis, DMR management actions and resultant savings for both DoD-wide and Service-specific initiatives. The DoD Comptroller is responsible for monitoring the savings associated with these initiatives. Quarterly reports are provided to ensure that directed actions are accomplished and to keep apprised of the status of the implementation process.

The Department has high expectations for future accomplishments and is confident that the established DMR framework will facilitate ongoing and long lasting management improvements. Many DMR initiatives that hold the great promise for long term improvement will require close cooperation and a concerted effort with other executive agencies, the Congress and defense industry. The Department of Defense leadership is committed to working with these groups to ensure the full and complete implementation of the DMR.

Chief Financial Officers Act. The Chief Financial Officers (CFO) Act of FY 1990 consolidates DoD's financial management responsibilities into a central point of authority under the Chief Financial Officer of the Department of Defense who is responsible for budget and accounting matters, including the development of both general management and financial management policies and the monitoring of their implementation. The legislation makes constant reference to the application of FMFIA in establishing a qualifying baseline for the internal controls applicable to the requirements of the CFO. Inasmuch as there is a strong interdependency between CFO and FMFIA, this narrative reflects the Department's progress toward the implementation of CFO requirements.

Recent DoD initiatives have been consistent with CFO goals. These initiatives include: the establishment of a new DFAS to provide centralized accounting services; CIM initiatives to develop standard management systems; and the DMR for proposing initiatives to streamline and strengthen financial management and other aspects of the Department's operations.

The Department's DMR issued in January 1990 recognized the need to improve the Department's management infrastructure, particularly its financial management systems. The Department conceded that its systems needed improvement if they were to yield information required for more effective management, programming, funding, and other decision making processes. In conjunction with the DMR, the Secretary of Defense made a commitment to the President to improve the management of DoD

operations. That commitment led to the establishment of a number of initiatives. The two most important initiatives supporting the goals of the Chief Financial Officers Act of 1990 are:

- (1) Consolidation of DoD Accounting and Finance Operations. In April 1990, a study group composed of members of the DoD financial community including the Office of the Secretary of Defense, the Military Departments, and the various Defense Agencies, released a report entitled "Report on the Consolidation and Improvement of Financial Operations within the Department of Defense." The report addressed a number of opportunities for achieving savings and making improvements in the Department's accounting and finance operations. The report addressed the establishment of a single DoD accounting and finance organization as the most effective way to (a) develop and implement accounting and financial management systems which are consistently interpreted and applied, and (b) ensure DoD-wide standard financial operations and systems are implemented and remain standard.

In July 1990, the Deputy Secretary of Defense directed that the Comptroller of the Department of Defense convene an implementation group to develop a detailed plan and schedule for forming a single finance and accounting organization, and to establish control and direction of finance and accounting policies, procedures, standards, systems and operations of the Department. The implementation group evaluated various options and recommended an organization ultimately named the Defense Finance and Accounting Service (DFAS). It was recommended that the organization be comprised of a headquarters and various accounting and finance centers previously operated by the Military Departments, Defense Agencies, and other DoD organizations. In response to this recommendation, the DFAS was established on January 15, 1991. This organization places the Department in a very favorable position to realize future savings, and benefit from the implementation of standard procedures and new systems.

- (2) Corporate Information Management (CIM). In conjunction with the DMR, the Department also announced a major initiative to make more effective use of DoD's information systems. The CIM initiative was established to develop concepts for improved business processes, to increase management efficiencies, and to reduce redundant information systems meeting the same functional requirements. The initiative will enhance the availability and standardization of information and provide for the development of new integrated management information systems.



Until the enactment of the Chief Financial Officers Act of 1990, no one entity was vested with the responsibility for coordinating financial management practices in the Federal Government and the executive agencies. There was no centralized structure in the executive branch charged with developing and implementing government-wide and agency-wide financial management improvement efforts which gave managers the authority to make improvements and hold them accountable for their efforts. Because of the management reforms initiated by the Department recently, the Department has been able to respond to the requirements of the Chief Financial Officers Act with only minor changes to the functional responsibilities of the Department of Defense Comptroller/Chief Financial Officer.

The CFO Act also places an important reporting requirement on the Chief Financial Officer. He must prepare audited financial statements for selected activities in order to better account for stewardship of resources entrusted to the Department. These financial statements will serve as a means to inform the public that the DoD has complied with relevant public law, has accomplished its mission achievements, and what the operating cost and efficiency are in respect to private industry standards. Because these financial statements can withstand the scrutiny of an audit, they are the capstone of DoD's financial management improvement process. Audited financial statements are also a report card on the Department's financial management which can point out deficient systems, help quantify the extent of the problems, and highlight what needs to be done to improve the systems.

To comply with the audited financial statement provision of the CFO Act, the Department has begun initiatives to gain accountability over real and personal property and to assess its valuation procedures for reporting unserviceable and excess inventories. Steps are being taken to establish documented audit trails between accounting systems which report on the value of property and the logistics systems which maintain control over those property items. In addition, the Department has submitted a proposal to the newly formed Federal Accounting Standards Advisory Board, for revaluing unserviceable inventories at standard price less the cost of repair. Both of these initiatives will enhance the accuracy of financial statements and provide full disclosure of the Department's resources.

Defense Finance and Accounting Service (DFAS). The DoD Deputy Chief Financial Officer issued interim guidance on September 13, 1991, and final guidance on November 13, 1991, regarding the form and content of financial statements on FY 1991 financial activity. This guidance implemented OMB guidance of CFO Act reporting in DoD. The Office of the Deputy Comptroller (Management Systems), Directorate for Accounting Policy is developing additional performance measures for nonfinancial data to be included in the CFO reports.

DoD and OMB have agreed that DoD has 15 reporting entities for FY 1991 CFO reporting. OMB has waived reporting for seven of these entities.

DFAS appointed a program manager for CFO implementation within DFAS on September 23, 1991. CFO points of contact have been established in all DFAS centers performing departmental reporting functions.

DoD Components are responsible for Parts I and V (Overview of the Reporting Entity and Supplemental Financial and Management Information) of the CFO financial statements. DFAS is responsible for Parts II, III, and IV (Principal Statements, Notes to the Principal Statements, and Combined Statements). In addition, DFAS is preparing parts Parts I and V of the Army and Air Force Statements as a service to those components.

Army. The Department of the Army is participating in the DoD pilot CFO Program. In this regard, Headquarters, Department of the Army and the Army Major Commands have been involved in several ways in facilitating the development of the Army's consolidated financial statements by the DFAS. The Army has submitted the required annual statement fiscal year end financial reports, and has developed and submitted their performance measurement indicators to be used in the Army's consolidated financial statements. In addition, the Army will review and comment on the financial portions (Parts II, III, and IV) of the narrative portions (Parts I and V), based on a draft developed by DFAS. Finally, Headquarters, Department of the Army and the Army Major Commands continue to work with the GAO to resolve issues regarding GAO's ability to audit these financial statements.

Air Force. The CFO requires the Air Force to prepare and audit a complete set of financial statements for FY 1992. The Air Force, in connection with the DFAS, has been working toward that goal. The DFAS Denver Center has been designated the focal point for all Air Force CFO matters. Major emphasis has been placed on resolving issues resulting from the FY 1988 and FY 1989 GAO audits of Air Force financial statements and correcting weaknesses found in Air Force FMFIA reviews.

A CFO implementation group has been established with the responsibility for developing the necessary policy, instructional guidance and training to enable the Air Force accounting and finance offices and DFAS to be prepared for the audit of the Air Force FY 1992 financial statement.

The major finding in the GAO review of Air Force financial statements was the noncompliance with established rules, policy and procedures in the preparation of the general ledger. Added emphasis has been placed on this area to make sure major command and base level offices follow the established procedure. A DFAS (Denver Center) Quality Assurance Bulletin was sent to everyone affected regarding the problems uncovered during internal control reviews in the general ledger area.

The DFAS Denver Center is hosting a general funds general ledger workshop for the Air Force Chiefs of Accounts Control and general ledger accounting technicians. This workshop would also be beneficial for deputy Accounting and Finance Officers, chief accounts and major command accounts control personnel. Some of the major areas to be covered are:

- Background of problem areas.
- General funds general ledger training programs.
- Tips and troubleshooting.
- Future general funds general ledger enhancements.
- Roles and responsibilities.
- Upcoming audits.

In addition to establishing the DFAS Denver Center Implementation Group to track corrective actions and provide training to the network, the following was accomplished:

- Published a technical bulletin article.
- Performed network compliance reviews.
- Distributed training package to Accounting and Finance Officers.
- Revised prescribing directive Air Force Regulation 177-101.

The following action items will be accomplished by March 1992:

- Publish and implement guidance for reconciliation of each general ledger account.
- Require certification of reconciliation process.
- Change trail balance reporting from semiannual to monthly.

- Conduct training workshop for all accounting and financial personnel.

The Air Force Audit Agency has been working with GAO to ensure that the Air Force Audit Agency is prepared to perform the required financial statement audits. GAO has held a series of training sessions to be assured that the audit agency uses GAO audit methods and procedures during the reviews. The Air Force Audit Agency has compiled a list of required reviews and is working with the Department of Defense Inspector General to ensure that all areas are covered and there is no duplication between the audit agencies.

DoD Audit Follow-up. The DoD audit follow-up effort has facilitated the correction of a wide spectrum of previously existing problems concerning the proper utilization of audit reports. Although basic policies are sound and compliance with program requirements is generally good, the DoD recognizes that constant emphasis on improvement is necessary in such a difficult, complex area. In FY 1991, the Department of Defense Inspector General (IG, DoD), continued working with the Military Departments and Defense Agencies to improve practices and procedures pertaining to the resolution of disputed internal audit findings and the documentation and verification of completed management corrective actions. With the exception of the Department of the Air Force, all DoD components have now completed preparation of revised follow-up and resolution procedures to comply fully with the revised internal audit follow-up directive. In addition, the IG, DoD, continued an expanded on-site verification program and completed 59 follow-up reviews covering all DoD components.

Over the years, the audit follow-up efforts have made substantial contributions to the efficient operation of the Department. Since 1982, corrective action on IG, DoD, internal audit findings has resulted in an estimated \$6.6 billion in monetary benefits. Corrective action on Military Department internal audit and internal review recommendations provided estimated benefits of \$17.4 billion, and corrective actions resulting from GAO audit recommendations contributed an estimated \$7.63 billion in monetary benefits. For the same timeframe, the improved efficiency and effectiveness of audit follow-up efforts is reflected in some remarkable statistics: only 23 undecided DoD internal audit reports over 6 months old were reported to Congress since 1982; all were subsequently decided within the next 6 month reporting period. Corrective action has been completed and documented on 8,020 IG, DoD, audit recommendations.

Contract Audit Followup. Progress continues by DoD contract audit follow-up in addressing problem issues and in promoting understanding of how to properly utilize audit reports. Guidance on reporting procedures and contract audit follow-up activities was provided during numerous field oversight reviews.

Two key special projects were completed: (1) a comprehensive analysis of reasons for nonsustention of costs questioned in post-award contract audit reports, and (2) a review of non-reportable operations audits and internal control reviews to ensure that contracting officers take timely action on findings contained in these types of contract audits. The Contract Audit Report Tracking System (CARTS) has become an increasingly valuable management tool. The Army, the Air Force and the Defense Logistics Agency currently submit automated products that readily transfer to our existing data base. This makes our accumulation of report statistics much easier and substantially less time consuming, thereby providing more time to analyze and interpret the report statistics.

One of our most significant recent undertakings began in July 1991. Contract audit follow-up undertook the task of determining the status of corrective actions at 42 contractor locations identified by the GAO as having inadequate estimating systems specifically relating to subcontract pricing.

Preliminary findings indicate that 31 of the 42 contractors have either corrected all of the significant deficiencies or submitted corrective action plans that, when implemented, will correct the cited deficiencies. Eight contractors are in the process of resolving open issues. Three contractors have either closed the respective divisions or no longer intend to bid on DoD business. The report on this IG, DoD review has been provided to the Secretary of Defense for his use in deciding whether to identify subcontract pricing as a material internal management control weakness in the Department's next annual Statement of Assurance in December 1991.

Defense Contract Management Command. On February 26, 1990, the Defense Contract Management Command (DCMC) was established as a subordinate Defense Logistics Agency (DLA) organization. Its establishment was in response to a Defense Management Report Decision (DMRD). Although DCMC has been in existence for 18 months, it has taken significant actions to streamline existing Contract Administration Services (CAS) organizations, promote uniform procurement policy, and upgrade the quality of the CAS work force while eliminating overhead and reducing payroll costs.

The DCMC actions already initiated are consistent with the stated objectives of the DMRD, as well as control related concerns: (a) differing procedures for administering contracts in each of the Military Departments and in DLA and the need for uniform policy and procedures, (b) the need to provide a single face to industry on contract administration, (c) the need to provide for greater professionalism in contract administration, and (d) the need to focus on contract administration as a single activity so that it will receive the attention and focus it needs.

In June 1990, the DLA concluded Memorandums of Agreement with the Military Departments to consolidate resources in keeping with the February 6, 1990, Policy Memorandum on the Streamlining of Contract Management. In that context, the transfer of civilian and military employees and the resources to complete the transition of the 44 Service Plant Representative Office (PROs), now called Defense Plant Representative Offices (DPROs), was executed. The transfer covered 5,400 people and 100,000 contracts having a face value of \$400 billion. In the process, the Air Force closed its CAS headquarters element, the Air Force Contract Management Division at Albuquerque, New Mexico.

During the summer of FY 1990, DCMC began the process of eliminating redundancy and took steps toward creating a more efficient organization. They disestablished the nine Defense Contract Administration Services Region (DCASR) headquarters and created five Defense Contract Management Districts (DCMDs). At each of the four disestablished DCASRs, they created Transition Management Offices (TMOs). DCMC is coming to closure on reassigning the remaining people at those TMOs.

To eliminate unnecessary overhead and create a more effective and efficient CAS organization, DCMC adopted 13 functional streamlining initiatives that account for 724 man years or \$27.28 million in Operations and Maintenance expenses. A plan to streamline field organizational structure, eliminating 217 more positions equating to a \$9.21 million in savings, was also approved.

As a result of the above efficiency improvements, and in conjunction with a strict hiring policy, DCMC has reduced 5,000 positions from the baseline of 26,246 contract administration positions authorized when the baseline was set in April 1989 by the planning Task Force. To some degree, the effect of these personnel reductions resulted in some pockets of skills and population-to-workload imbalances. The Assistant Secretary of Defense (Legislative Affairs) (ASD(LA)) was advised of the need to conduct a Reduction-In-Force (RIF) to accomplish the realignment of personnel since voluntary reassignments would no longer achieve the objective. That RIF is ongoing at present. DCMC will continue its policy of offering a position to any DCMC employee impacted by planned actions to the extent possible.

Other important initiatives undertaken are:

- The transition of the Air Force's Contract Maintenance Center at Wright-Patterson Air Force Base into, effectively, a sixth district now called Defense Contract Management Command International (DCMCI). DCMCI is a worldwide contract management activity having Area Operations Offices in eight international locations. This modification has enabled DCMC to do contract administration for the Department worldwide; something

the Defense Logistics Agency did not do in the past, but was done by the Military Department.

- Establishment of a Special Access council to oversee Contract Management functions for Special Access Programs. DCMC is now positioned to be the contract administration focal point for the special access community with the same focus on efficiency and effectiveness that is expected in more conventional operations.
- Implement a continuous process improvement concept called In-Plant Quality Assurance (IQUE) at all plants under DCMC cognizance. This program is receiving positive comments from both industry and government. Industry, as they implement, are seeing direct positive profit and loss results. We in the government are able to use less people in oversight. It is a true win-win situation.
- Pursuing the concept of recognizing outstanding industry performance through the Exemplary Facilities program. This program will have joint-Service sponsorship. Its intent is to stimulate industry to voluntarily participate in continuously improving their processes through the use of performance-based management and statistical process control techniques.
- In keeping with adopting the best practices from all the CAS elements, DCMC has initiated a Performance Assessment Review (PAR) concept of in-depth multifunctional reviews of contractors' operations and management systems to assess overall performance and compliance with the contract requirements. Two earlier reviews were concluded at McDonnell Douglas Aircraft Company and General Dynamics, Fort Worth, Texas. DCMC has corrective action plans in place at both locations. Both contractors are proceeding satisfactorily.
- In order to provide the Under Secretary of Defense (Acquisition) with an independent assessment of highly visible incidents and situations at contractors' facilities, DCMC has instituted the "Bellringer" notification procedure. Issues that have potential for national news coverage, Congressional Hearings, criminal investigations, and other effects on the contractor's ability to meet cost, schedule or performance are covered. This information is coordinated with Service program managers so that they will be prepared to address these issues. However, there is apprehension among program managers about someone other than them reporting data. While the notification is a good check and balance on the process, DCMC has committed to an approach that advises the Program Manager before the fact of the Under Secretary of Defense (Acquisition) notification.

- Lessons learned from the failure of the A-12 Program have been put to good use. Most of the lessons applicable to contract management involve:
  - Early involvement of Contract Administration Offices in the procurement cycle.
  - Recognition of the warning indicators of program performance through validation of Estimates of Completion (EAC) and through Cost Schedule Control Systems Criteria (C/SCSC) techniques.
  - Validation of progress payment requests.
  - Open and honest communication between Program Offices and DPROs.

Relating this to the objective of efficient CAS, all DPRO and DCMAO Commanders (who cover all of the major programs) attended a training session in which their prime responsibilities as the senior representatives of the Government were stressed, business management was emphasized and they were directed to perform a complete baseline review of cost and schedule.

In summary, the preceding are significant, but only a few of the more important events for DCMC over the past year. DCMC continues to work with its work force, Service customers, and industry to improve processes and build a new DCMC culture.

**Defense Contract Audit Agency Contract Administration Support.** The Defense Contract Audit Agency (DCAA) was established in 1965 as an independent organization to perform all necessary contract audits for the Department of Defense and to provide necessary accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. Further delineation of the DCAA mission appears under its charter in DoD Directive 5105.36. Management oversight of DCAA is provided by the Comptroller of the Department of Defense. Furthermore, in accordance with OMB Circular A-73, DCAA provides its full range of contract audit services to various other Federal agencies. These are performed at locations where DoD has the predominant Government financial interest or in situations where DCAA performance is considered beneficial to the Government. The following narrative describes some recent efforts on the part of DCAA which have helped to support the effectiveness of "Contract Administration" in the Department of Defense. Several of these were highlighted under the DMR initiatives as activities that have improved the overall efficiency of DCAA operations.



Reduction in Backlog/Overage Contracts. Contract closeouts and final payments to contractors under flexibly priced contracts require an audit by DCAA of the contractor's direct and indirect costs. Until recently DCAA was several years behind in these audits. Had this continued, there was a risk that substantial funds would have been lost to DoD. The 1991 Defense Appropriation Bill reduced DoD's ability to use funds that resided in "M" accounts (obligated but unexpended funds) and required that all procurement funds not expended within 5 years after being appropriated must be returned to the Treasury. DCAA has worked diligently to minimize possible loss of "M" account funds to DoD by concentrating its efforts on the oldest year audits of contract incurred cost submissions on-hand. During 1991, we accomplished about 94 percent of all incurred cost submissions on-hand for contractor fiscal years prior to 1987. In addition, we have worked closely with the contract administration organizations to establish priorities for audit and to minimize the impact on other contract administration concerns. With the cooperation of the Military Services and DLA, DCAA has expeditiously reduced backlogs of overage completed contracts to be closed by concentrating audit effort on contractors with the largest number of overage completed cost-reimbursable contracts. During FY 1991, DCAA issued 4,600 incurred cost audit reports enabling over 4,100 overage contracts to be closed. This initiative was so successful that the number of overage contracts for FY 1992 dropped by 48 percent.

Automation. DCAA uses microcomputers and local area networks to perform audits and to manage information. The management information system, called DIIS (DCAA Integrated Information System), is used to improve the handling of information throughout the Agency and has helped increase the accuracy of our management information. Computers also reduce the time required to perform audits. For instance, an Electronic Data Processing Pilot Program was started at six DCAA field audit offices (FAOs) to improve audit operations by allowing auditors direct, online access to contractor mainframe databases and the capability for downloading files to microcomputers. Microcomputers are also used by auditors to prepare electronic spreadsheets and to electronically transfer audit information. The pilot program resulted in a successful reduction of audit hours and improvements in the quality and timeliness of audit information received from contractors by DCAA. The program was therefore expanded during FY 1991 to other FAOs.

High Risk Contracts. The cancellation of Navy's developmental A-12 program brought to light the Government's need for accurate and timely information on high risk contracts. DCAA took expeditious action to correct identified deficiencies in its audit coverage of Cost and Schedule Control System Criteria (C/SCSC) and progress payment estimates at completion

(EACs) by creating an ad hoc group in February 1991 to (1) determine the audit effort required to fulfill our mission during C/SCSC surveillance and progress payment reviews, (2) develop or revise audit programs in accordance with the audit effort to be performed, and (3) determine training requirements and develop training. By May 1991 the ad hoc group had completed its tasking and the majority of targeted auditors had been trained.

Further actions taken included the following:

- New guidance was issued for performing progress payment and financial capability reviews of high risk areas with emphasis placed on the importance of assuring that the EACs accurately reflect contract status.
- Articles were published in "The DCAA Bulletin" which reemphasized the importance of self-initiated progress payment audits and C/SCSC surveillance activity for sensitive and high risk programs.
- Headquarters and regional oversight of sensitive (special access) and high risk programs was increased to ensure that auditors give appropriate priority to C/SCSC surveillance responsibilities on these programs, particularly those relating to evaluation of variance analysis, data reconciliation, and system integrity.
- The standard audit programs for C/SCSC surveillance reviews and for progress payments audits were modified.
- Revisions to the Contract Audit Manual (CAM) were made to give auditors a clearer understanding of the priority to be placed on these activities and to improve cross-referencing the related CAM sections.

As a result of these efforts, auditors are now better equipped to evaluate and monitor the accuracy and timeliness of information received from high risk and other contractors. DCAA Headquarters and regional oversight will continue to be maintained in these areas to ensure implementation of revised policies and procedures.

Audit Procedures. Studies are continuously conducted to seek more efficient audit methods and procedures in areas such as audit planning, computer aided audit techniques, risk assessment in audit performance, and electronic transmission of audit reports.

Acquisition Streamlining. Our full support has and will continue to be given to congressional and DoD studies relative to streamlining the acquisition process, paying special attention to reduction of duplicative oversight of contractor operations.

Contractor Self-Governance. The Contractor Risk Assessment Guide (CRAG) program, a voluntary program sponsored by the Secretary of Defense, improves Government oversight of contractors by strengthening DoD/Industry communication and encouraging contractor self-governance. This is accomplished by DoD contractors who voluntarily test their own internal control structure, using the CRAG as a guide and subsequently provide the testing documentation and results to the Government. DCAA auditors then determine the extent to which they can rely on materials provided by the contractor in accordance with Government Auditing Standards. At present, nearly one third of all major DoD contractors participate in CRAG or some form of self-governance. A similar initiative is "Coordinated Audit Planning." As an extension of the CRAG, it encourages an ongoing process of audit planning and coordination among DCAA, contract administration officials, and contractor representatives (including both internal and external auditors) by allowing all parties to share information.

Liaison with the Procurement Community. DCAA has taken significant steps to improve communication with and responsiveness to the DoD procurement community. The Procurement Liaison Auditor (PLA) organization was formed in 1989 to strengthen our relations with our customers. PLAs are located at major buying commands and serve as the means for ensuring that the needs of the procurement offices are met. In addressing concerns about timeliness of audit services, the PLAs have monitored the average number of elapsed days on proposal audits. Their analysis and related actions taken to emphasize timeliness and increased awareness of the issue has led to notable improvements in the process. This was also one of the principal topics discussed with procurement officials during the DCAA Director's visits in 1990 to the 14 major buying commands with full-time resident PLAs. During the past two years, DCAA has reduced its total turnaround time on audit reports of forward pricing proposals from an average of 62 days for 1st Quarter FY 1990 to 44 days for 3rd Quarter FY 1991.

Closure of Regional Office. During FY 1991 DCAA realigned its regional organization by closing the Western Regional Office located in the San Francisco area. Most of the regional workload was tasked to the Southwestern Region which was renamed as the (New) Western Region. This realignment reduced management overhead.

Total Quality Management (TQM) Studies. One of several TQM studies conducted in FY 1990 addressed the area of Cost Accounting Standards (CAS). Results of that study led to improvements in the way CAS audits are planned, reported, and tracked within the Agency. Another TQM study conducted with joint participation from the Defense Logistics Agency (DLA) and the DoD Office of the Inspector General concerned the DoD Directive 7640.2, Contract Audit Follow-up Reporting process.

Inconsistent interpretations were found not only within DCAA, but also among other DoD components involved, as to which audits were to be reported under that Directive. To ensure consistency, the study team finalized a list of audits subject to the process. And, to improve accuracy and timeliness of the process, several system changes to DCAA's and DLA's automated databases were suggested and approved for implementation.

Training Initiatives. DCAA has developed numerous training modules which are regularly delivered to our field offices to enhance the efficiency and effectiveness of audits. A growing number of self-study courses and workshops help to meet Government Auditing Standards and related requirements for mandatory continuing education in an economical manner. During FY 1991 an Agency/Industry Conference was held at the Defense Contract Audit Institute to demonstrate our commitment to training and discuss topical issues of mutual interest. Top officials from the 15 largest defense contractors attended these meetings which proved to be very beneficial to both sides.

Net Savings Statistics. DCAA's independent centralized audit and financial advisory services have generated significant savings to the Government each year. In FY 1990 DCAA evaluated 21,970 pricing proposals with a value of \$188.3 billion and audited \$88.9 billion of incurred costs. Net savings to the Government from these audits was \$5 billion.

Defense Business Operations Fund. In 1990, the Department of Defense endorsed a fundamental concept which ultimately lead to the establishment of the Defense Business Operations Fund (Business Operations Fund). In order to more effectively manage the financial resources of the Department, while installing internal management controls to maximize the beneficial use of those resources, the Department concluded that support services should be provided on a reimbursable basis rather than by direct appropriations. All Defense Appropriations for equipping and operating the Military Forces should be provided to the organizations responsible for the management and direction of those forces. All of the overhead costs of the support organizations would be related to the output of those organizations, and allocated to the outputs, using standard business accounting methods. All costs would be allocated to an output and the total support operation funded through the sale of the products to customers. In some relationships, a support activity would be providing services to other support activities. For example, payroll support to a supply depot by a finance center will be provided on a reimbursable basis, and then included in the price that the supply depot charges its customers. These were the fundamental precepts which concluded in the establishment of the Defense Business Operations Fund.

The Business Operations Fund is an expansion of the current revolving fund concept to a larger number of Defense support

functions. The primary goal of this change is to provide a management structure that allows the best support at the lowest cost by a larger number of DoD managers and employees. A major feature of this structure is increased emphasis on business operations, allowing customers to be charged for the cost of industrial and commercial-type services. In order to create a customer/provider relationship between the operating forces (the customer) and the support establishment (the provider), improved information and a structure that supports this relationship are required. That mechanism, as provided through Business Operations Fund, achieves the desired result. Since the Business Operations Fund operates under many of the same policies and procedures currently in place for revolving funds, no major technical changes have resulted from this initiative.

The Business Operations Fund was established as a revolving fund at the beginning of FY 1992 and consists of various components from the DoD support establishment. Business Operations Fund incorporates the revolving funds previously called the stock and industrial funds. In addition, the DFAS, the Defense Commissary Agency (DeCA) and three DLA functions (the Defense Technical Information Center (DTIC), the Defense Reutilization and Marketing Service (DRMS), and the Defense Industrial Plant Equipment Center (DIPEC)) will become subordinate organizations within Business Operations Fund during FY 1992. The business areas included in the Business Operations Fund will provide \$77.2 billion in support services in FY 1992 and \$75.7 billion in FY 1993.

The Business Operations Fund allocates support costs using business accounting techniques to provide DoD managers, at all levels, many of the management tools available to the private sector. The improved identification of the costs of doing business is expected to improve the efficiency of these operations. In FY 1993, a \$.5 billion savings is budgeted based on the efficiencies achievable within the new structure.

One of the basic tenets of this initiative is to capture all the costs of operating a business area and reflect the total costs of doing business in stabilized prices charged to customers. Rates are fixed throughout the year to protect customers from unforeseen inflationary pressures and other cost uncertainties. To reflect the total cost of goods and services provided by the business areas in the Business Operations Fund, all the costs of operation and maintenance, military personnel, major construction and repair projects, procurement, and depreciation of capital assets associated with the functions, or business areas, are included in the Business Operations Fund. This gives visibility to both the support establishment and the operating forces of the true cost implications of management decisions.

The Business Operations Fund is essentially a business-type financial system. As such, the Business Operations Fund

distinguishes between capital and operating costs using standard accounting principles. Capital costs include construction and major repair of facilities, development of information systems, procurement of equipment, and any other costs normally capitalized by businesses. Capital budget items associated with the Business Operations Fund business areas have been separately identified. The Business Operations Fund capital budget shows the same level of detail as that provided for efforts included in the Military Construction and Procurement appropriations.

The use of capital budgeting is an essential ingredient to capturing the total costs of operating a business area and reflecting true costs in prices charged to customers. During decision making and execution of programs, this approach will provide all levels of management better visibility of the costs of providing support to the operating forces. The costs of capital investments will be reflected in operating budgets, and prices charged to customers, through the use of tradition depreciation methodologies. Buildings and facilities will be depreciated on a straight-line basis over 20 years; equipment over 10 years; and automated data processing hardware and software over 5 years. As a point of departure, depreciation is computed and included in total costs for all capital assets installed and placed in service after October 1, 1991.

In order to assure the necessary cash will be available to execute the Business Operations Fund capital investment program until depreciation recoupments are sufficient to finance capital investments, FY 1992 prices charged to customers will be adjusted to cover the full cost of the FY 1992 investment items. Customer appropriation requests also reflect the full cost of FY 1992 investment items. In subsequent years, the Business Operations Fund prices and customer appropriation requests will include the prorated share of the amount of depreciation for that billing year. To the extent that these resources are insufficient to cover the essential capital budget requirements, a surcharge will be added to customer costs.

In conclusion, the following itemization summarizes the financial principles of the Business Operations Fund which provide cost visibility and encourage cost tradeoff decisions:

- emphasizes on cost rather than level of funding,
- business-like cost accounting system,
- includes all costs,
- better identification to business activity of capital budget should improve decision-making,
- gives managers at operating units more direct control of funds, and

- moves DoD closer to mission budgeting and better cost information for decision makers.

## CONCLUSION

The preceding narratives which addressed programmatic improvements and programmatic training reflect the constant vigil, the constant activity of the Department of Defense IMC Program. The passage of the Chief Financial Officers Act has placed an even greater emphasis on the maintenance of internal controls and the effective implementation of FMFIA. While recognizing that FMFIA is difficult to implement, the Department has asserted that managers must comply with its requirements. Anyone familiar with FMFIA requirements is well aware that the process calls for managers to not only correct control problems, but also report those problems to their superiors; this sort of requirement will always test the limits of loyalty and management commitment. Constant promotion of the program and constant oversight of its implementation are necessary - that is what the Department provides. The sheer number of assessable units detailed at the beginning of this enclosure speaks to the magnitude of the DoD program. The Department is proud of its success with FMFIA implementation, but, as reflected by the history contained in the Annual Statements produced over the years, the Department has never rested on its accomplishments. With every successive statement, the Department has reported growth and progress. This has always been our ambition and our objective. We will continue our aggressive efforts to manage, review and maintain the internal management controls of the Department of Defense.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
HIGH RISK AREAS  
STATISTICAL SUMMARY

## Statistical Summary:

For All High Risk Areas

Weaknesses Reported:	44
Less:	<u>9</u>
Net Uncorrected Weaknesses	<u><u>35</u></u>

For Each High Risk Area

Financial Accounting for  
Real and Personal Property:

C-2

Weaknesses Reported:	2
Less: Corrected	<u>0</u>
Net Uncorrected Weaknesses	<u><u>2</u></u>

Supply Operations:

C-9

Weaknesses Reported:	25
Less: Corrected	<u>6</u>
Net Uncorrected Weaknesses	<u><u>19</u></u>

Contract Administration:

C-23

Weaknesses Reported:	7
Less: Corrected	<u>1</u>
Net Uncorrected Weaknesses	<u><u>6</u></u>

Information Technology/Automated  
Data Processing Security:

C-33

Weaknesses Reported:	10
Less: Corrected	<u>2</u>
Net Uncorrected Weaknesses	<u><u>8</u></u>

Contracted Advisory and Assistance Services:

C-45

Weaknesses Reported:	0
Less: Corrected	<u>0</u>
Net Uncorrected Weaknesses	<u><u>0</u></u>



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
FINANCIAL ACCOUNTING FOR REAL AND PERSONAL PROPERTY  
HIGH RISK AREA  
STATUS

High Risk Area: The Department of Defense is not in compliance with the General Accounting Office (Policy) Title 2 for financial property accounting. This is a critical action area to ensure compliance with generally accepted accounting standards, OSD requirements, and the requirements of the Chief Financial Officers (CFO) Act of 1990, to produce auditable financial statements.

DoD Component accounting systems do not:

- Adequately control DoD real and personal property.
- Adequately reconcile accounting data with supporting property records.
- Accurately identify and track the cost of property.
- Identify costs incurred to maintain and support real and personal property.

Pace of Corrective Action:

Year Identified: FY 1990.

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996.

Current Target Date: To be determined.

Reason for Change in Date: Contingent upon system development.

Strategy: Existing accounting systems were designed to capture the contractual cost of acquiring assets and to provide accurate and timely information to program managers, not to satisfy the asset, liability and equity accounting data required for financial reporting purposes. Accordingly, when the need for such information arose, the financial systems began to depend on functional activities, rather than financial systems, to furnish the data. Property or inventory managers were tasked to use their logistics systems to report needed information. These systems served their management well but were not particularly well suited to identifying acquisition costs, asset modifications, overhauls or repair costs or to classify assets in accordance with financial management system needs. None of the Military Departments or Defense Logistics Agency have a single system to control, track, and value all real and personal property.

Many property records are used to maintain physical control over DoD real and personal property; however, they do not include a record of the initial cost of the item or the date acquired. Consequently, the value of such property is usually reflected in summary records at standard price, estimated acquisition, or replacement cost or some combination thereof. Requirements to identify and report acquisition, actual, or equivalent costs to the Congress and others require special reporting systems. These special accounting systems too often require a duplication of effort, or at least some additional effort that could be avoided. For the most part, these systems yield cost information that is difficult to reconcile with appropriation accounting information because it was not developed as part of the financial system network.

General ledger control over assets is necessary to ensure that appropriated fund resources are recorded in the official accounting records. DoD initially introduced a standardized and integrated general ledger about ten years ago. The purpose was to provide a disciplined accounting and effective internal control process for appropriated funds, property, and other resources entrusted to DoD. A standardized and integrated general ledger also provides a mechanism to produce reliable and useful financial information on the results of operations for top managers and for local decision makers.

DoD guidance requires that general ledger data for assets, liabilities, equity, revenues, and expenses be maintained for the preparation of Treasury financial reports from a single set of books which are summarized to the departmental or agency level each year. The use of an integrated general ledger better ensures that systems capture financial data accurately, from a single source, in a more timely manner. The reporting of financial information on a timely basis is frequently considered as important, or more so, as the reporting of accurate data.

The visibility associated with management or public review of financial reports also enhances internal control and accountability. An integrated general ledger assures that appropriation and financial data are recorded and reported in the same reporting period and that management reports and analyses are made based on data consistent in time and in value.

The CFO of the DoD is managing and providing leadership to promote the achievement of full compliance with accountability requirements. It is the CFO's intent for the Department to effect the efficient and cost effective transition from component-unique finance and accounting systems and processes to DoD-wide standard systems.

Second, the CFO is establishing recording and report preparation standards for financial statements required by the CFO Act of 1990. The audit of all accounts under the Pilot

Project for Army financial statements for FY 1991 and 1992; and for the Air Force for FY 1992, will disclose whether all property assets have been reported in accordance with DoD procedures. The Department will use these disclosures to ensure that subsequent years financial statements properly record assets and provide sufficient audit trails.

Lastly, the CFO is charged with establishing the functional requirements, overseeing the development and implementation of the Corporate Information Management (CIM) initiatives in financial management. The functional requirements established by the CIM Financial Operations Group will require that all capitalized property be recorded in the accounting system at cost and be reported as such until its disposition through sale, loss, transfer, or trade-in. The accounting and reporting system envisioned by the CIM initiative is a long-term solution to establishing full property accountability within the department.

On August 9, 1991, the Deputy CFO provided additional guidance and direction to DoD Components on Property Management. The guidance addressed the problem, as well as proposed short-term, mid-term, and long-term efforts needed to correct the weaknesses. The Deputy CFO's short-term goal is to implement guidance that corrects those procedural aspects of the problem which can be corrected without costly systems changes. In response, DoD Components are requested to identify logistical and accounting systems used to obtain information on real and personal property for reporting purposes, and document the procedures currently employed to value real and personal property for year end financial reporting purposes, together with the offices responsible for compiling and submitting such data. This information will be provided to the Director, Defense Finance and Accounting Service (DFAS) by last quarter of CY 1991.

In addition, the Director, DFAS has developed a successor CIM action built on the previous work plan, with leadership provided by a DFAS Task Group. This effort includes the following tasks:

- Define requirements for financial property accountability.
- Develop an inventory of financial systems that account for property and any interfacing systems. This action involves summarizing and analyzing responses to the DoD Deputy Chief Financial Officer memorandum of August 9, 1991.
- Review property accounting systems in other federal agencies as well as state and local governments and private enterprise.

- Determine a concept of operations for property accounting that will comply with all financial requirements in the most cost effective manner.
- Develop, staff, and coordinate a strategic plan and milestones for standardizing and consolidating property accounting in DoD. This will include briefings to key managers and agreements between managers responsible for interfacing functions and systems.

**Critical Milestones and Dates:** The Department has initiated actions and established milestones to ensure that steady and continual progress is made toward establishing full financial accountability over property at both the Installation and Department level.

**A. Completed Actions/Events:**

Through February 28, 1992. The short term period is being used to make nominal improvements in accounting for DoD Component property. These improvements are oriented primarily toward documenting current procedures to facilitate audit and making procedural changes identified during the documentation process. At the same time, the Defense Finance and Accounting Service will be conducting an analysis of current accounting systems to determine candidates for a migratory standard DoD-wide system.

**B. Planned actions/Events (short term - next 12 months):**

The mid term period will be used by the Defense Finance and Accounting Service to continue the review of current financial management systems in an effort to nominate interim DoD-wide systems; and by the DoD Components to continue making improvements in property accounting. The selected interim system will be enhanced, as necessary, to provide general ledger control over property.

**C. Planned Actions/Events (longer term):**

Implementation of systems developed under the Corporate Information Management process that provide full general ledger control over property.

**Results Indicators:** Minimally acceptable standards. The Department's minimally acceptable standards require that all property, plant and equipment with an initial acquisition cost of \$5,000 or more and a useful life of 2 years or greater be brought under Departmental general ledger control and be reported in their entirety in financial statements. Summary property records must be reconcilable to Departmental level account balances with clear audit trails to categories and/or subcategories of property making up general ledger account

balances. The methods used for determining asset values must be disclosed in footnotes to the financial statements.

Full financial property accountability. Full property accountability standards are included in the DoD Accounting Manual (DoD 7220.9-M). The Manual requires the recordation of assets on agency books in accordance with generally accepted government accounting principles and provides for the maintenance of general ledger accounts in accordance with the U.S. Government Standard General Ledger.

Assessment of Progress: A task force has been initiated to investigate and resolve this high risk area. The action required to establish this initial stage of the corrective action is well underway. An initial assessment of progress will be made when this first stage action is completed.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
FINANCIAL ACCOUNTING FOR REAL AND PERSONAL PROPERTY  
HIGH RISK AREA  
STATUS

The following is a supplemental disclosure by a DoD Component which has reported weaknesses in other functional categories which will be affected by the resolution of this high risk area as defined by the weakness reported by the Defense Finance and Accounting Service. It supplements the foregoing Departmental position on this high risk area.

NAVY

Material weaknesses as identified by the Department of the Navy (DON) components for the high risk area of Financial Accounting of Real and Personal Property dealt with accounting for material-in-transit, excess property, billing for Aviation Depot Level Repairables (AVDLRS) and accounting for material at repair facilities. The material-in-transit weakness centered around the problem of not accurately recording financial transactions which can result in inadequate controls over the receipt of material. Problems with aging and write-off of unmatched billings were also identified. The material weakness of excess property involved inaccurate property records and property accountability, erroneous computation of supply requirements and requisitions exceeding authorized quantities. The AVDLRS weaknesses involved erroneous billings, credits, and reversals. Finally, Navy did not have an adequate system for monitoring material sent to commercial or DoD facilities for repair. Consequently, supply and financial records did not accurately reflect the correct quantity of materials.

An objective of DON is to ensure internal controls are implemented for these identified weaknesses. For example, Navy management established procedures to strengthen controls over the in-transit inventories at Uniform Inventory Control Points. To resolve the weakness of excess property, Navy managers initiated several controls such as establishing a central activity to coordinate management of support equipment, reducing unauthorized requisitions, and requiring activities to use the Local Asset Management Systems for Industrial Material Readiness Level accountability. Also, DON installed the Contractor Aviation Material Management Systems to process designated government furnished material transactions. As an effort to address the weakness of billing for AVDLRS, DON management added data processing controls to record transshipment losses on financial records. Finally, Navy management established procedures such as maintaining Financial Inventory Control Ledgers for all commercial facilities to ensure proper accounting for government material at commercial facilities.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
FINANCIAL ACCOUNTING FOR REAL AND PERSONAL PROPERTY  
HIGH RISK AREA  
WEAKNESS STATUS

The following is a summary listing of the internal management control weaknesses contained in this Annual Statement of Assurance which pertain to this high risk area. They are listed in priority sequence.

Uncorrected Material Weaknesses

<u>Title</u>	<u>Page No.</u>
Financial Accounting for Real and Personal Property	D2-118
Financial Accountability of Property	D2-140

Uncorrected Material Weaknesses

<u>Title</u>	<u>Page No.</u>
The following uncorrected weaknesses were reported by the Department of the Navy in another functional category and are not generic weaknesses in this high risk area. These weaknesses pertain to the narrative (preceding page) provided by the Navy. These weaknesses are not included in the summary page: C-1.	
Material Handling and Container Requirements	D2-28
Management of the Metrology and Calibration Program	D2-31
Excess Property	D2-48
Excess Materials	D2-58

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**SUPPLY OPERATIONS HIGH RISK AREA**  
**STATUS**

**High Risk Area:** The Office of Management and Budget indicated that improvement was needed by DoD in three primary areas: assuring items are received before payments are made, improving management of spare part inventories, and correcting catalog identification numbers.

**Pace of Corrective Action:** The Department continues to make progress in this area as per the plan developed. That progress is reflected in the body of this narrative.

**Year Identified:** FY 1989.

**Targeted Correction Date in Last Year's Report:** FY 1997.

**Current Target Date:** FY 1997.

**Reason for Change in Date:** Not applicable.

**Strategy:** The DoD Inventory Reduction Plan (IRP) was initiated in May 1990 to meet the challenge of re-sizing Defense inventories while maintaining the gains in readiness resulting from the Defense strategy of the 1980's. The IRP is the master plan for implementing a series of policy and functional management improvements and applying technology to provide greater support at a lower cost with smaller inventories. The goals of the plan are to improve the functional policies, processes, and incentives that compose inventory management in order to attain greater material support effectiveness, significant budget savings, and major reductions of current inventories. These processes include: item introduction (provisioning), cataloging, item requirements determination, use of commercial practices, and materiel distribution. Total savings resulting from inventory reductions are currently estimated at \$18.7 billion through FY 1997. DoD's need for, and success in, maintaining readiness has been amply demonstrated by Operation Desert Storm (ODS).

The DoD inventory consists of nearly 5 million items and is valued at approximately \$101 billion. This materiel is used to provide replacement parts and other items to maintain the readiness of our ships, aircraft, tanks, and other weapon systems, as well as for military personnel support needs. Weapon system support is crucial to defense readiness; the performance of our Armed Forces in ODS has shown that our readiness is at an unsurpassed level.

The Defense strategy of the 1980s was aimed at modernizing our forces while increasing their readiness and staying power. This approach was to correct the "hollow forces" of the late



1970's during which technological obsolescence and shortages of spare parts severely curtailed operational readiness. The combination of introducing new weapons systems, modernizing current systems, and increasing support levels across-the-board led to the significant growth in inventory levels during the 1980's.

Major changes over the past two years in the threat facing the United States and our allies have highlighted the need for a smaller, more flexible materiel management system, capable of responding rapidly to various threat scenarios. The events in Panama and the Persian Gulf clearly demonstrate that the DoD materiel management system was prepared to meet those demands. Our challenge is to preserve that readiness capability as we re-size and improve operations. In recognition of the requirement for top-level DoD coordination of this effort, the Defense Materiel Management Board (DMMB) has been established to oversee implementation of the Inventory Reduction Plan.

The DMMB, comprised of the Department's senior "practitioners of logistics," provides the Secretary of Defense and his staff a mechanism for operational oversight to direct implementation of Defense materiel management improvement initiatives and programs. The DMMB, chaired by the Deputy Assistant Secretary of Defense (Logistics), exercises functional oversight and management integration of DoD-wide materiel management initiatives, programs, resources, and automated system.

#### Critical Milestones and Dates:

<u>Critical Milestones</u>	<u>Completion Date</u>		
	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
<b>A. <u>Completed Actions/Events:</u></b>			
Issuance of DoD IRP	FY 1990		FY 1990
IRP provided to Congress and the Executive Office of the President	FY 1990		FY 1990
Issuance of the DoD IRP Progress Report	FY 1991		FY 1991
Testimony to the Senate Committee on Governmental Affairs on DoD Progress in Managing/Reducing Inventories	FY 1991		FY 1991

**B. Planned actions/Events (short term - next 12 months):**

Implement IRP Milestones  
in Appendix C of the  
FY 1991 Progress Report      FY 1992      FY 1992

**C. Planned Actions/Events (longer term):**

Continuous and full  
implementation of the  
DoD IRP      FY 1997      FY 1997

**Results Indicators:** Of the 22 separate areas measured in the IRP, 18 areas improved during the first year of this 7-year effort. There is one key reason DoD is achieving these initial trends and that is the total resolve of the Services and DLA to implement the IRP. They are working diligently with the Office of the Secretary of Defense to highlight policies and methodologies that require changing and to modernize the ADP systems through the CIM initiative. Some examples of primary measures of performance contained within the IRP areas follows:

1. Overall Inventory - Measures the trend over time of the total value of the DoD Secondary Item Inventories. (A decrease of \$7.2 billion, from \$109.1 billion in FY 1989 to \$101.9 billion in FY 1990.)
2. Inactive Inventory/Total Inventory - Inactive inventory is that part of secondary item inventory retained to meet possible needs beyond the budget year plus materiel scheduled to move to disposal. The ratio shows the dollar value of inactive inventory for each dollar of total inventory. (A decrease of \$5.0 billion, from \$34.0 billion in FY 1989 to \$29.0 billion in FY 1990.)
3. Stock Number Assignments - Total National Stock Numbers (NSNs) assigned in the Federal Catalog System. (A decrease of 44,000 NSNs, from 226,000 in FY 1989 to 182,000 in FY 1990.)
4. Materiel Disposals - Measures the current book value of materiel transferred to Defense Reutilization and Marketing Service Accounts. (An increase of \$2.0 billion, from \$8.4 billion in FY 1989 to \$10.4 billion in FY 1990.)

**Assessment of Progress:** Over the period of a single year, the Office of the Assistant Secretary of Defense for Production and Logistics has developed, organized and placed into motion the most complete and fully integrated inventory management

improvement program ever under taken in DoD. More than 200 separate actions and improvement milestones have been identified and are currently underway. This effort, as part of the IRP, encompasses all phases of management improvement, including the fundamental tools necessary to materiel management - the complex computer systems which are now being modernized to implement the myriad of policy and process improvements.

Inasmuch as inventory management is a major portion of the Defense Management Report (DMR) is a clear signal that the Secretary and Deputy Secretary have already committed to the President that DoD will improve the way it conducts its business. The Under Secretary for Acquisition and the Assistant Secretary for Production and Logistics brief the Secretary and Deputy Secretary regularly on progress made. The Comptroller monitors the financial aspects of the program. The Defense Materiel Management Board, chaired by the Deputy Assistant Secretary of Defense (Logistics), was created for the single purpose of overseeing the execution of the Department's IRP. The members on this Board are the actual hands-on Service and DLA inventory managers accountable for DMR implementation and savings. Management is fully committed.

Another area in which progress has been made is that of bringing private business processes and financial practices into DoD. This is now being done. One of those practices is valuing the various elements of inventory accurately. This process has begun, and the total inventory in store has been reduced in value from \$109 billion to \$101 billion to reflect a more accurate state of the inventory, particularly in the area of unserviceable stocks.

Inventory growth is yet another area in which tremendous progress has occurred. In fact, the actual DoD inventory growth trend of recent years has been stopped. For the three years prior to 1990, the average annual inventory increase was more than \$7 billion per year; but in 1990, the inventory actually decreased by \$100 million in real terms - the first decrease in nearly five years.

In addition, the inactive inventory, which is inventory that is required but will not be utilized within the current budget year, has also decreased. The FY 1993 budget, which was sent to Congress in January, shows a reduction of approximately \$2 billion in projected spending for spare parts and material. Recently implemented incentives to reduce overall order quantities are also succeeding. At the same time, emphasis on terminating orders above requirements has resulted in significant contract and on-order cutbacks.

In conjunction with OSD, Executive Agents from the Services and DLA are building a Single Integrated Technical Management Plan (SITMP) for materiel management. The SITMP will incorporate the integrated IRP policies, methodologies and

process improvements as part of the comprehensive functional requirements for migration to Logistics Standard Information Systems.

Another new initiative, entitled Total Asset Visibility (TAV), has also been introduced with the objective of linking currently available Service and DLA systems with the aid of enabling technologies to provide the Components and their customers total visibility of their available assets. This effort includes supply, transportation and maintenance; it is the integrated logistics function of material management. TAV will result in many solid enhancements to the IRP. With total visibility, the Services will be able to "see" what they own, know where it is (in wholesale or retail), and where to send it. If you always know what you have, you won't buy more of it. Once there is greater confidence in where items are, when they can be expected, and even where they are in the production line of manufacturers, then the pipeline will shorten; safety levels will come down further, and order quantities will be reduced. This effort will enhance both the policy and process improvements currently being developed, as well as the IRP CIM effort. Only now is all of the technology available to accomplish TAV. A program plan to pull together the TAV concept will be published in November 1991.

It is important to note that no matter how hard DoD tries, we will never achieve perfection. With 5 million items in the system, \$100 billion in inventory, more than \$20 billion in annual purchases, and more than 50,000 people involved in two and one quarter billion materiel management annual transactions, a few mistakes will be made - an item may be duplicated in the system or a premature disposal may occur.

Our objective is to ensure that the foundations which support inventory management are correct; then when a specific problem is identified, it can be determined whether it is an isolated problem, a localized problem, a command problem, or a systemic problem. If it is a systemic problem, then DoD will need to return to those very foundations and correct them. The IRP was deliberately developed for use by OSD upper management, the Office of Management and Budget, the Congress, the General Accounting Office (GAO), and the Office of the DoD Inspector General. Milestones and measures were purposely established in the IRP so that everyone could see and validate DoD progress.

Excellent progress is being made in management of DoD inventories and in obtaining Total Asset Visibility, while at the same time maintaining the required levels of materiel readiness. The Desert Storm experience demonstrated clearly that war fighting and management improvement are not mutually exclusive. Commitment, involvement, and technology are the core ingredients of this successful program.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
SUPPLY OPERATIONS HIGH RISK AREA  
STATUS

The following are supplemental disclosures by DoD Components affected by internal management control weaknesses in the Supply Operations High Risk Area. They supplement the foregoing Departmental position on this high risk area.

ARMY

There are significant challenges ahead for the logistics community Army-wide: Operation Desert Shield, "Build Down", Base Realignment and Closures (BRAC), Quicksilver, Defense Management Report actions, and Conventional Forces Europe (CFE) actions. One of the more significant will be managing property accountability during "Build Down". Of particular concern, is the high volume of materiel flowing through the supply pipeline. To ensure that every effort will be taken to minimize loss and ensure proper accounting and control, the material weakness on Excess Inventory/Inventory Growth has been reopened because of the impact of this weakness on property accountability. This reopening also impacts on the GAO recommendation that Low Return Rates of Reparable assets be considered a material weakness. This recommendation was based on an audit of Aviation Systems Command (AVSCOM) items. Due to the nature and management of the AVSCOM items that GAO audited, no separate material weakness is identified herein. However, reparable asset return rates influence requirements determination and creation of assets in long supply, which are covered in the material weakness on Excess Inventory/Inventory Growth.

Property Accountability. During the past year, ongoing DoD mandated changes to property accountability directly influenced the original objectives, actions, and expectations of this material weakness such as the transfer of the majority of the Army's depot distribution missions to Defense Logistics Agency (DLA). Significant events have been undertaken to assure that other DMRD initiatives take place. Substantial progress can be reported in the following areas: movement of repair parts supply support for depot maintenance operations to an Army Oriented Depot, transfer 210,000 of consumable items to DLA, consolidation of Army National Inventory Control Points, allows greater flexibility to dispose of items stratifying to numeric retention, and reducing materiel stockage objectives. These initiatives are the cornerstones in allowing the Army to implement secondary item weapon system management concepts, and modernize on-hand and in-transit visibility. A major strategic Logistics program is underway which will modernize and integrate logistics system management capability with system-wide asset visibility. The Standard Army Retail Supply System (SARSS) continues to serve as the critical foundation for a single supply system. Current prototyping of the Objective Supply

Capability which links asset data bases on real-time basis from retail to wholesale level and the long range asset visibility and redistribution capability will be reflected in a "seamless" supply system through vertical integration, total asset visibility and redistribution. The Inventory Reduction Plan will reduce materiel stockage objectives, eliminate inactive items, and disposal of nonessential or inactive materiel.

Controlling of Contractors' Access to the DoD Supply System. In the past there have been several DoD mandated changes to materiel management which directly influence the original objectives, actions, and expectations of this material weakness. A Defense Management Report Decision addresses both aspects of the issue. It focuses mainly on the financial aspects to controlling contractor access to government property. Other DMRDs such as stock funding of depot level reparables will also affect this material weakness. Another DMRD, which focuses on the concept of Corporate Information Management, could also influence implementation of program changes necessary to control automatic access at the retail level.

This issue has been incorporated into the Inventory Reduction Plan as an effort to reduce long supply. The Army Materiel Command (AMC) has implemented a tracking system to record how much stock is being utilized. AMC is also working with the Project Manager community to ensure that the contracts will reflect the requirements and that they are input into the wholesale supply system.

Contractor support required for Operation Desert Storm and the draw down of our forces through Conventional Forces Europe, Base Reductions and Closures, and Quicksilver have the potential to increase the magnitude of this problem. A large number of contractors were involved in supporting U. S. forces in Southwest Asia.

Excess Inventory/Inventory Growth. The Army has made great strides in reducing its excess inventory. We have eliminated the Numeric Retention Level; the budget stratification process was changed to eliminate the automatic movement into contingency stocks--now the item manager must make conscious, manual decisions to retain assets in this level. We have increased usage of long supply assets in both maintenance and procurement contracts. In addition, to preclude stocks from growing while the force structure is being reduced, the Army Materiel Command started using program change factors to reflect the downsized Army. There has been intensive management attention placed on all efforts to reduce inventory, and prevent it from recurring. These efforts have paid off.

During the past year there have been several DoD mandated changes to materiel management which directly influence the original objective, actions and expectations of this material weakness. Defense Management Report Decisions are causing or

have caused actions such as transfer of depot distribution missions, movement of repair parts supply support for depot maintenance operations to area distribution centers, transferring 195,000 consumable items to DLA, consolidation of Army National Inventory Control Points, and reducing materiel stockage objectives. Several DMR issues - stock funding of Depot Level Repairables and elimination of numeric Retention Levels, holding assets in proportion to end item density - will impact directly on the reduction of excess inventory. At the same time the DMRs will allow the Army to implement secondary items weapon system management concepts, modernize on-hand and in-transit visibility, institute an aggressive elimination of inactive items, and timely disposal of nonessential and inactive materiel.

The Inventory Reduction Plan will reduce materiel stockage objectives, eliminate inactive items, and disposal of nonessential or inactive materiel. It encompasses the whole spectrum of logistics. The IRP focuses on the achievement of significant policy and functional management improvements. It will target several areas for intensive review which will have a direct influence on excess inventory--provisioning, requirements determinations, and materiel distribution. One of its major goals is the establishment of a comprehensive program to achieve long-term reduction of inventories while preserving military readiness.

A major strategic logistics program is underway which is a total quality management approach. It will modernize and integrate Army logistics. A main objective is to establish a single logistics system management capability with system-wide asset visibility. The Standard Army Retail Supply System serves as a critical foundation for a single supply system. Current prototyping of the Objective Supply Capability which links asset data bases on a real-time basis from retail to wholesale level and long range asset visibility and redistribution capability will be reflected in a "seamless" supply system through vertical integration, total asset visibility and redistribution.

All of the above, along with continued management emphasis, have served well to reduce the material weakness of excess inventory. However, until the supply system catches up with the reduced requirements of force structure downsizing, Army anticipates a significant increase in excess/inapplicable assets.

#### NAVY

Material weaknesses as identified by Department of the Navy (DON) components for the high risk area of Supply Operations dealt with problems in inventory control, management of prepositioned war reserve assets, and storage and disposal of hazardous material. In addition, a concern of centrally controlled operating stock positioned at the field level has

been reported. Inventory control weaknesses involve areas such as the excessive growth of inventories of spares and repair parts and the lack of controls of material in transit. Since DON is reducing the number of ships and submarines, weaknesses in the area of forecasting future inventory requirements are a major concern. To accomplish proper forecasting DON must systematically identify and evaluate all inactive ship and submarine stock items and eliminate those with no potential for future use.

An objective of DON management is to establish and implement adequate inventory control, management of prepositional war reserve assets and storage and disposal of hazardous material. During July 1991, DON established a program that will decrement data held in file for ships designated to be decommissioned. The program established procedures to inform ship and submarine part inventory control points about systems being phased-out or replaced. Inventory records are then coded to identify and ensure that purchases of such items are made for immediate use only. Another area of concern in inventory control deals with excess materials. DON improved controls within the Supported Activities Supply System (SASSY). This system identifies and redistributes excess materials. During February, DON completed the update of the Shipyard Management Information Systems (SYMIS) to accommodate the new inventory techniques and material visibility program. In addition, procedures are being established to strengthen controls over inventories as part of the Fleet Optional Scanning Ammunition Marketing System (FOSAMS). The appropriate personnel are being trained. Finally, through the use of the Conventional Ammunition Integrated Management System (CAIMS) improvements have been made in managing the inventory of torpedo propulsion batteries and sonobuoys. Several measures which require field activities to properly identify hazardous waste have been established. Navy continues to develop new guidance which emphasizes special awareness of inventory management procedures of hazardous materials.

#### AIR FORCE

Supply operations are closely monitored because of the high value of the inventories managed and the number of items required to provide support to worldwide Air Force activities. Therefore, this area warrants scrutiny in almost every facet of inventory management. The Air Force maintains oversight of all areas of supply operations to assess the operational and economic impacts resulting from policy changes, requirements fluctuations and process improvements at both wholesale and retail levels.

One of our management approaches to preclude material weaknesses is to closely monitor ongoing initiatives being implemented as a result of the DoD IRP which will ultimately reduce our inventories and budget investments. Headquarters Air



Force Logistics Command's Project Pacer Trim, which institutionalized the IRP in the Air Force, focuses on quick response to force structure changes by directing attention to termination of unneeded material on order, thorough review and validation of requirements prior to purchases, disposal of unneeded stock on hand, and improvement of processes in over 125 areas of materiel management. A number of retail level initiatives to include verification and reduction of base stock levels are also underway as part of the IRP.

Other objectives, which include upgrading of the Air Force Stock Control and Distribution System, will restructure the Air Force depot systems that process and track requisitions, control storage and allocate materiel, plan shipments, and process all cargo. The modernization is 90 percent complete and is already providing vastly improved inventory controls, better response time to user needs and real-time asset visibility.

Another major initiative, the Air Force Requirements Data Bank, will provide the capability to make on-line planning, programming and budgeting decisions that support Air Force weapon system availability/supportability goals for war readiness. The system capability is scheduled for completion by September 1994, but its incremental enhancements are already providing item managers with the capability to detect computational errors, perform on-line file maintenance, strategy on-hand and on-order assets against requirements by priority of need, and reconcile worldwide assets.

These initiatives, combined with the continuance of existing enhancements, provide management the controls necessary to accurately assess material and budgetary requirements, perform physical inventory checks and balances, and make economical supply decisions to avert waste and abuse.

#### DEFENSE LOGISTICS AGENCY

During FY 1991, the Defense Logistics Agency (DLA) management initiatives in the Supply Operations area included a number of Defense Management Report Decisions as well as other initiatives. In most cases the initiatives improvements in management controls, as well as financial benefits. The following address the management initiatives for Supply Operations undertaken by DLA during FY 1991.

Inventory Reduction Plan (IRP). In June 1990, DoD announced the IRP as part of an Inventory Management Program targeted toward streamlining the Department in conjunction with the Defense Management Report. DLA plays an active role in this process and has advised the Office of the Secretary of Defense that \$500 million in savings can be achieved through IRP plans predominantly in the arena of levels investment. DLA's plan for IRP includes actions and milestones to achieve savings from FY 1993 through FY 1995.

Defense Distribution System (DDS). The Defense Distribution System has been implemented in support of the Bay Area Prototype of Supply Depot Consolidation under the auspices of a DMRD. DDS is a hybrid 'best-of-breed' system made up of modules and functional applications from several DoD components' systems. The primary developmental effort is designing and programming the required transaction-based interfaces between the various modules to be used. Implementation date for the Bay Area Prototype was May 12, 1991, for the Oakland site and September 18, 1991, for the Sharpe site. Further expansion and fielding beyond the prototype sites will be determined in conjunction with near-term decisions on the future standard system in all DoD distribution.

Defense Depot Consolidation. As the single manager for the DoD Distribution System, DLA is responsible for consolidating the materiel distribution functions and optimizing use of space and resources. The first step in the process was to consolidate Defense Depot Tracy, Sharpe Army Depot, and the distribution function at NSC Oakland. In April 1991, the prototype was completed with the incorporation of the distribution functions at Sacramento Air Logistics Center and Sacramento Army Depot into Defense Distribution Region West (DDRW). Concurrently, Defense Distribution Region East (DDRE) was formed by combining Defense Depot Mechanicsburg and New Cumberland Army Depot. Defense Distribution Region Central (DDRC) was established in September of 1991. Initially, it was composed of Defense Depot Memphis and the distribution function at Red River Army Depot. As directed by the OSD, the implementation schedule for consolidation of the remaining DoD materiel distribution functions was developed by DLA and approved by ASD(P&L) on July 2, 1991. Execution of the scheduled consolidations will occur through 1993.

Consumable Item Transfer (CIT). The Military Services were directed to transfer approximately one million consumable items to DLA and GSA over a 3-year period. The Services have identified approximately 930,000 items to be transferred to DLA/GSA during Phase 1. DLA established a Program Manager's office to facilitate the CIT. The immediate tasks are to implement automated programs that mechanize the transfer of management data; purge and review the items, and delete those items with no further DoD use prior to the transfer; develop an equitable item transfer schedule; and establish Service/Agency agreements on transfer of technical data. These tasks are for the most cases complete, and have facilitated the transfer of 43,942 items to DLA from August 1, 1991 through October 1, 1991. For the period of November 1, 1991 through January 1, 1992, there are 64,421 additional items in the transfer pipeline. Phase 1 is basically on schedule for completion in the 3-year period as planned.

Projected Service Transfers:  
CONSUMABLE ITEM TRANSFER SCHEDULE  
AND VOLUME CANDIDATES (IN THOUSANDS)

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>MC</u>	<u>Total</u>
YEAR 1	66	102	176	2	346
YEAR 2	73	92	177	--	342
YEAR 3	60	70	113	--	243
TOTAL	199	264	466	2	931

Improve Effectiveness of Materiel Receipt Inspections. This initiative is designed to review and assess the effectiveness of receiving inspection processes, and reinforce efforts directed at continuously improving the quality of parts designated for Depot inspection and acceptance. DLA drafted and implemented the DLA Depot Product Receipt Evaluation Process (PREP) which revised receipt inspection policy, procedures, and criteria for customer returns and destination-inspected new procurement receipts at DLA Depots. Concurrently, an interactive system change to the DLA Warehousing and Shipping Program (DWASP) at all Depots was implemented to support the inspection of individual receipts by identifying weapon-system-critical and safety-critical receipts and their respective source of technical documentation. A standardized training and certification program for receipt examiners was completed by all receipt examiners at all DLA depots under the auspices of the Work Force Certification Program (WCP). Access and availability of item characteristics data to DLA Depot Receipt Examiners was enhanced through utilization of CD ROM equipment and system pass-through capability.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
SUPPLY OPERATIONS HIGH RISK AREA  
WEAKNESS STATUS

The following is a summary listing of the internal management control weaknesses contained in this Annual Statement of Assurance which pertain to this high risk area.

Uncorrected Material Weaknesses

<u>Title</u>	<u>Page No.</u>
Control of Small Arms Spare Parts	D2-2
Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks	D2-4
Accuracy of Repair Additive Requirements for Recoverable Items	D2-6
Financial Management of the Stock Fund	D2-8
Material at Commercial Repair Facilities	D2-14
Potential Excess Aircraft, Ship, and Submarine Parts	D2-17
Control of Depot Maintenance and Material	D2-20
Review of Existing Shelf-Life Items	D2-22
Review of New Shelf-Life Items After Entry into DLA Supply System	D2-24
Development/Update of Storage Standards	D2-26
Property Accountability	D2-35
Excess Inventory/Inventory Growth	D2-38
Receipt Confirmation	D2-41
Bench Stock and Stock Fund Operations	D2-43
Controlling Contractors' Access to DoD Supply System	D2-54
Carcass Tracking and Billing for Aviation Depot Level Repairables	D2-56
Receipt of In Transit Supply Shipments	D2-64
Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	D2-66
Special Tooling/Special Test Equipment Management	D2-68

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
SUPPLY OPERATIONS HIGH RISK AREA  
WEAKNESS STATUS

Material Weaknesses Corrected this Period

<u>Title</u>	<u>Page No.</u>
Requirements Determination and Accountability	D3-3
Identification and Cataloging of Supply Items	D3-7
Inaccurate Inventory/Stock Records	D3-8
Inventory Accuracy	D3-9
Automated Subsistence Due-In Files	D3-11
Improvements to Three DLA Subsistence Supply Systems	D3-12

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**CONTRACT ADMINISTRATION HIGH RISK AREA**  
**STATUS**

**High Risk Area:** DoD initiates each year about 15 million contract actions valued at about \$160 billion. DoD has identified a number of control weaknesses in this area, including weaknesses in the utilization and management of government furnished material (GFM) in the possession of Defense contractors and post award contract administration functions. There were significant risks that contractors (who currently hold billions of dollars in GFM under contract terms) could acquire material not authorized under their contracts as well as other problems. At the time the Executive Office of the President identified this high risk area their position was predicated on control weaknesses reported by DoD in its Annual Statements of Assurance through the conclusion of FY 1988 and other information available to that office.

**Pace of Corrective Action:** Functionally, the corrective actions in this area have progressed as planned. Some revision of the planned action has taken place as a result of a delay in the fielding of an automated data processing system.

**Year Identified:** FY 1989.

**Original Targeted Correction Date:** FY 1991 (for GFM weaknesses).

**Targeted Correction Date in Last Year's Report:** FY 1991 (for GFM weaknesses).

**Current Target Date:** FY 1992 (for GFM weaknesses).

**Reason for Change in Date:** Slip in schedule for fielding automated plant clearance Automated Data Processing (ADP) system.

**Strategy:** The Department has corrected the problems associated with contractor access to the supply system through procedural changes and through installation of an automated validation process. It is addressing the problem of delays in the reutilization and disposal of excess and/or unneeded property in the hands of contractors by installing an ADP system to reduce manual processing and streamline the process.

**Critical Milestones and Dates:**

<u>Critical Milestones</u>	<u>Completion Date</u>		<u>Actual</u>
	<u>Original Plan</u>	<u>Current Plan</u>	
<b>A. <u>Completed Actions/Events:</u></b>			
Issue approved DoD Activity Address Directory Manual	FY 1989		FY 1990
Institute DoD Activity Address Code controls	FY 1989		FY 1990
Implement Approved Milstrip Change Letter change 1A to validate contractors' requisitions	FY 1990		FY 1991
DoD Corporate Information Management Related Milestones:			
Phase I conceptualize accounting requirements for GFM	FY 1990		FY 1990
Phase II functional requirements for GFM	FY 1991		FY 1991
<b>B. <u>Planned actions/Events (short term - next 12 months):</u></b>			
Functional testing of plant clearance system	FY 1991	FY 1992	
Begin full deployment of plant clearance system	FY 1991	FY 1992	
<b>C. <u>Planned Actions/Events (longer term):</u></b>			
Not applicable			

**Results Indicators:** Results will be monitored by management reviews and by audits.

**Assessment of Progress:** Contract administration was designated a High Risk Area by the Office of Management and Budget in FY 1989. As noted earlier in this narrative, in all likelihood this determination was to some degree based on the FY 1988 DoD Annual Statement of Assurance. The FY 1988 Annual Statement contained a DoD material weakness in areas dealing with material in the possession of contractors (subsequent statements contained further references to related weaknesses). One weakness dealt with contractor access to the DoD supply system by unauthorized use of DoD Activity Address Codes. The Address Codes weakness was first identified in the FY 1987 Annual

Statement and was reported as corrected in the FY 1990 Statement. Two additional weaknesses were added in the FY 1989 Annual Statement: one on inadequate controls for contractor access to the DoD supply system and another involving the reutilization and disposal of material in the hands of contractors (page D2-52). Corrective action on contractor access was completed November 1, 1990, and is reported as completed in this Annual Statement (page D-3-5). Corrective action for the reutilization and disposal weakness involves fielding an automated plant clearance system. This system was originally scheduled to be completely operation in FY 1991; the target date is now in FY 1992.

Control of government material in the hands of contractors first emerged as a material weakness in 1986. In that same year the Under Secretary of Defense (Acquisition) directed a broad series of 30 actions to improve the acquisition, control, use and disposal of government property in the possession of contractors. The Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) were modified to eliminate the provisioning of profit during the acquisition of industrial facilities, to establish an electronic reporting system (DD FORM 1662) to provide visibility over all property in the possession of contractors, and to eliminate the "no cost" storage agreement policy that resulted in the storage of billions of dollars of unneeded and excess special tooling.

In addition to FAR and DFARS changes, a one time review of all property bearing contracts was accomplished to remove all excess/unneeded property from contractors' possession. Management Control Activities (MCAs) were established to stop contractor unauthorized access into the DoD Supply System. These MCAs control the unauthorized issuance of GFM to contractors. A new DoD Manual for the "Performance of Contract Property Administration" (DoD Manual 4161.2-M), was developed using Total Quality Management principles. The Manual will replace old 1974 policy contained in Supplement #3 to the DFARS. It was developed by the Military Services, the Defense Logistics Agency, and the National Aeronautics and Space Administration users of the Manual (Property Administrators) and is in final coordination prior to publication. This document will contribute to further improvements for the acquisition, control, and disposal of property in the possession of contractors.

The Corporate Information Management (CIM) initiative has also taken action which will impact on some aspects of this high risk area. The Phase II products of the GFM CIM group were forwarded to the Financial Operations CIM group and the Materiel Management CIM group for incorporation in the broader functional requirements of these two functional areas. One of the objectives of the Financial Operations group is to provide



financial control over all properties, including material in the hands of contractors. The Materiel Management group will be looking at management of DoD properties, including material in the hands of contractors.

In summary, in recent years there have been three OSD material weaknesses identified involving the general subject of GFM. The only one that appeared in the annual statement upon which the OMB designation was primarily based has been corrected. One of the other two weaknesses has been corrected and the remaining one is well on its way to correction. In addition, several significant actions have been taken over the past five years, both in response to the Federal Managers' Financial Integrity Act material weaknesses and other management direction to strengthen internal controls and overall management of property in the possession of contractors. Even if all of these weaknesses had appeared at once, it is doubtful that they would have warranted the designation of a high risk area; with only one remaining, it would appear that maintaining this designation would be inappropriate.

(Note: The Special Interest section of Enclosure B of this statement contains additional information - two independent narratives - pertaining to contract administration in the Department of Defense. One narrative addresses the mission responsibilities of the Defense Contract Audit Agency, and the second addresses the mission, and accomplishments, of the newly created Defense Contract Management Command, a subordinate organization in the Defense Logistics Agency.)

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CONTRACT ADMINISTRATION HIGH RISK AREA  
STATUS

The following are supplemental disclosures by DoD Components affected by internal management control weaknesses in the Contract Administration High Risk Area. They supplement the foregoing Departmental position on this high risk area.

ARMY

Noncompetitive acquisitions occasionally occurred due to improper contract off-loading. Satisfaction of supply and service requirements is accomplished by obtaining contracting support from other Federal agencies rather than assigned contracting offices, thereby circumventing established controls such as mandatory reviews, fund controls, and contract justifications.

Inappropriate off-loading of contract requirements heightens the potential for mismanagement and accountability. "Shopping around" for contracting support is contrary to published policy, regulations and statutes; burdens Army financial resources with non-value added middleman fees imposed by servicing agencies; can result in higher contract costs under noncompetitive buys; may improperly circumvent year end spending policies and controls; and potentially lead to loss of expiring funds resulting in mission shortfalls.

The Army issued and published guidance to all Army Staff Principals and Commanders that directed remedial action to correct defects when they obtain contracting support outside of customary organizational arrangements. The guidance required offices that do not have an assigned contracting activity to obtain one, and coordinate with the assigned contracting activity before "off-loading" supply or service requirements for action to other than that assigned contracting activity.

Additional corrective actions are planned to be taken as cited in the material weakness to ensure that requirements managers follow instructions to ensure that legal counsel and assigned contracting offices review all military interdepartmental purchase requests to all non-DOD agencies.

NAVY

Material weaknesses as identified by Department of the Navy (DON) components for the high risk area of Contract Administration deal with the problems of contracting via interagency agreements and business practices with universities. The weakness of contracting via interagency agreements involved Navy program managers not being aware that interagency transfer could be used as a method of contracting. As a result, adequate

competition has not been obtained and obligations have not been accurately recorded in the proper system. The weakness of business practices with universities identified the lack of controls over federally-funded research grants.

An objective of DON management is to ensure internal controls are implemented for these identified weaknesses. For example, DON officials have informed all contracting officers and program managers about the statutory and regulatory requirements governing interagency acquisitions. In addition, management plans to issue an instruction on interagency acquisition. The main thrust of this instruction will be to require activities to establish appropriate financial and administrative controls. Also, the lack of controls in business practices with universities is a concern in the area of indirect costing, therefore, DON has prepared a comprehensive practices and procedures manual on indirect cost negotiations. The manual discusses a number of new requirements designed to yield a negotiated indirect rate that is consistent with federal regulations, and is equitable and fully documented. Comprehensive training has and will continue to be provided.

#### DEFENSE LOGISTICS AGENCY

During FY 1991, several Defense Logistics Agency (DLA) management initiatives in the area of Contract Administration were undertaken by the Directorate of Contract Management, an element of DLA headquarter's staff. They participated in the following management initiatives:

One of the more significant initiatives underway within the Defense Contract Management Command (DCMC) is entitled "Evolving Contract Administration Services" or E-CAS. The Directorate of Contract Management is chairing this DCMC initiative.

An E-CAS Process Action Team (PAT) was established in the Fall of 1990 at the direction of the Commander, DCMC. Its charter encompasses the identification and priority ranking of all mission tasks performed by DCMC functional specialists at Defense Plant Representative Offices, together with a summary of work-years expended on the various tasks. The ranking process will help focus attention on those tasks considered most critical in performing the CAS mission.

The results of the PAT team's efforts will be utilized, in conjunction with input from our customer buying activities, to enhance operational effectiveness and efficiency under the Command's "performance-based management" concept of CAS. Performance-based management emphasizes placing the right number of DCMC personnel where they are needed, when they are needed. It recognizes that the level and intensity of CAS activity should be commensurate with the level of contractor performance and reliability.

There are two phases to the E-CAS study. The first phase is comprised of a DCMC survey and data analysis. The second phase will entail a survey of customer buying activities to better ascertain the customers' perspective on the level and quality of CAS provided by the DCMC, and to determine the relative priorities our customers assign to the different CAS functions.

The results of the E-CAS efforts will assist the DCMC in maximizing the utilization of its resources, through the elimination of redundant or non-value added tasks, and emphasize mission critical tasks.

DCMC working with the Institute of Internal Auditors to determine the extent the Government can rely on the results of reviews and audits performed by contractors' audit organizations. The concept is a logical extension of the Contractor Risk Assessment Guide Program, and could enhance Government oversight by reducing the scope or intensity of Government review or audit activity at contractors who have effective internal audit programs and can demonstrate that their system produces reliable results. Government resources could then be redirected to high risk problem areas.

As part of ongoing DCMC training initiatives, the Directorate is taking a close look at the quality and quantity of training received by Contract Management personnel. In addition to developing a new Mid-Level Management Intern Training Program for use by our field offices to prepare personnel with good functional skills for positions in management, particular attention is being given to functional skills training as well. During the past year, for example, all Districts were provided with an updated and expanded training module on progress payment administration. During the last year, each District used the module to provide training on progress payments for District and field office (Defense Contract Management Area Operations and Defense Plant Representative Office) personnel.

During FY 1991, the Directorate of Program and Technical Support, another element of DLA headquarter's staff, developed the following management initiatives:

One of the more significant initiatives underway within DCMC is to create standard approaches for evaluating and reporting contractors' performance on critical weapons systems programs. Using the Program Integrator's Contractor Assessment Data (PICAD), performance information on Acquisition Category (ACAT) 1C and 1D programs is used by Districts and Headquarters DCMC to focus management attention. To ensure that DCMC Commanders understand their responsibility to properly administer assigned programs, the DCMC Commander directed all Contract Administration Office (CAO) Commanders to certify that Estimates at Completion have been validated by the CAO and progress payments are properly administered.

To assess the health of contractor manufacturing management systems, a formal Manufacturing Systems Review process is being implemented. The concept is currently being tested at contractor locations; command-wide implementation will begin in December 1991. This effort will significantly contribute to DCMC's ability to standardize CAS processes at all contractor locations.

To improve the effectiveness of software cost estimators in Program and Technical Support elements and to ensure contractor software development estimates are reasonable, a software cost estimating model has been developed and distributed to assist personnel in performing technical analysis of software development proposals.

#### DEFENSE FINANCE AND ACCOUNTING SERVICE

The contract administration and payment process used by the Defense Contract Management Districts (DCMDs) and DFAS has the potential for processing duplicate and erroneous payments. DFAS has performed a detailed examination of the Contract Administration Services (CAS) invoice processing and payment function for determining whether adequate internal and management control measures exist, and are implemented, to prevent or detect duplicate invoices and/or payments. As a result, recommendations were formulated and will be implemented by March 1992, to strengthen the process by improving internal controls over the recipient of the Duplicate Invoice reports, requiring Invoice Control Supervisors to completely review documented research on duplicate or forced-through invoices and to require documentation of all forced-through payments to monitor trends and initial improvements. In addition, Technical Operations will need to revise desk procedures to include the above recommended changes and conduct refresher training for all the affected personnel to ensure continuity and uniformity of the recommended changes.

The accuracy, reliability, and control over contract files and supporting data is critical to ensure the accuracy and timeliness of payments to contractors. DFAS initiated actions to assess the availability and reliability of contract files to improve the contract payment process and eliminate duplicative and wasted efforts in searching for and retracing contract files and related data. This action improved the accuracy of recording contingency liability, simplified contract reconciliation and close out, and provided greater control over acquisition funds.

## DEFENSE NUCLEAR AGENCY

A Department of Defense Inspector General audit identified the weakness, Property Administration Oversight of Contractor Government Furnished Property (GFP). A procedural weakness existed in plant clearance practices for GFP in the custody of contractors, and there was an absence of required records and associated contracts over GFP in storage. The objective in resolving this weakness was to devise safeguards to prevent undetected loss, misappropriation or unauthorized use of GFP and to reduce delays of disposition of GFP thereby eliminating storage of excess GFP and the occurrence of indeterminable costs. The actions taken by the close of FY 1990 had substantially reduced the materiality of this weakness, therefore it was reported as corrected in the FY 1990 Annual Statement of Assurance.

Of the actions taken by the Defense Nuclear Agency (DNA) to resolve this problem area, following corrective actions were the most significant: plant clearance duties were delegated to Defense Contracting Auditing Service on May 30, 1990; written procedures for GFP management were published on May 21, 1990; a procedure to provide disposition instructions on GFP within 30 days of request was established on October 30, 1990; and certification that excess GFP was disposed was made on July 31, 1991.

DNA's report cycle is designed to produce a published contract deliverable report within 11 months from the date of receipt of a draft deliverable from a contractor. DNA has five major processes and five processing centers involved in getting a completed report in the hands of the user. Failure to meet the established time standard in any of the processes results in a delay in publication of the final report, since a sequential process is used. A summary document, the Reports Status List (RSL), is used to inform Agency managers of the status of all deliverables in the Reports Cycle. Action taken when a deliverable is reported as late is not standardized. The process as it stands involves many responsible offices and processes which could lead to delays.

Actions taken to address this weakness include forming a Process Action Team, developing and publishing additional and more comprehensive procedures to ensure timely contract reports and improvement of training for Contracting Technical Managers. Certification to verify the effectiveness of the corrective actions will be made through an Internal Management Control Review of the actions taken and will be completed by March 31, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CONTRACT ADMINISTRATION HIGH RISK AREA  
WEAKNESS STATUS

The following is a summary listing of the internal management control weaknesses contained in this Annual Statement of Assurance which pertain to this high risk area.

Uncorrected Material Weaknesses

<u>Title</u>	<u>Page No.</u>
Inappropriate Off-loading on Contract Requirements	D2-70
Business Practices with Universities	D2-72
Delinquency in Processing Contract Reports	D2-82
Contracting via Interagency Agreements	D2-86
Nonconforming Material in DoD Supply System	D2-88
Duplicate Payments	D2-99

Material Weaknesses Corrected this Period

<u>Title</u>	<u>Page No.</u>
Overpayment on Contracts	D3-14

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**INFORMATION TECHNOLOGY/ADP SECURITY HIGH RISK AREA**  
**STATUS**

**High Risk Area:** Information technology is primarily comprised of ADP and telecommunications equipment, software, and services. In defining this high risk area, the Office of Management and Budget (OMB) specified that DoD spent roughly \$9 billion on ADP in FY 1990. A number of material internal control weaknesses were identified in this area during FY 1988 and FY 1989. Inadequate ADP equipment and property accountability records, lack of an implementation plan for the programming language Ada, and insufficient security for automated systems are all specific weaknesses. At the time OMB identified this high risk area, more than 50,000 computer security plans were still undergoing independent review. DoD has since provided that information to OMB, and it has met with their approval.

**Pace of Corrective Action:** DoD has made excellent progress in accomplishing corrective actions. In the FY 1991 midyear status report a number of significant actions were reported in the areas of organizational restructuring, policy development, and efforts to eliminate redundant information system development.

**Year Identified:** In late 1989, OMB rated the area of Information Technology/ADP Security as one of several high risk areas in DoD. The OMB conclusion was predicated on reports from the audit community, control weaknesses reported in the DoD Annual Statement of Assurance, and their observation that this area was undergoing restructuring and was in a transition phase. The OMB conclusion was also based on its perception of redundant and nonstandard data systems within the Department that were impeding operations.

**Targeted Correction Date in Last Year's Report:** Several corrective actions were targeted for FY 1991 and completed in FY 1991 (see short term planned actions below). Some longer-term actions that are broad in nature, such as expanding implementation of the Corporate Information Management (CIM) initiative to all business areas and standardizing data elements across the Department, have not been assigned specific completion dates.

**Current Target Date:** During early FY 1992, some important short-term actions will be accomplished. These include revisions to the Life-Cycle Management (LCM) directives as well as the publication of new oversight policy on major Federal Information Processing (FIP) resource contracts. Other longer-term actions have not yet been assigned a specific completion date.



**Strategy:** The overall DoD strategy for reducing risk in information technology and ADP security includes efforts to strengthen policy, procedures, and oversight and to improve management of DoD's information through the CIM initiative. The primary objective of CIM is to improve the business practices of DoD. Information technology will be used, where required, to support improved business processes.

In the area of ADP security, the Department protects both classified and sensitive unclassified systems, where applicable, through communications security policies, standards, design, and technical disciplines. All efforts to protect sensitive unclassified information are being accomplished in full compliance with Public Law 100-235, OMB guidance and National Institute of Standards and Technology guidelines.

**Critical Milestones and Dates:**

**A. Completed Actions/Events:**

Several significant events relating to the accomplishment of improved management of information resources occurred in FY 1991:

- In early 1991, the Deputy Secretary of Defense transferred the responsibility for Information Resources Management from the Office of the DoD Comptroller to the Office of the Assistant Secretary (Command, Control, Communications and Intelligence) (OASD(C<sup>3</sup>I)). Concurrently, the ASD(C<sup>3</sup>I) was designated by the Secretary of Defense to be the DoD Senior Information Management Official and the Chairman of the Major Automated Information System Review Council (MAISRC). In addition, within the OASD (C<sup>3</sup>I), a Deputy Assistant Secretary of Defense (Information Systems), with responsibility for review and oversight of ADP programs and information services was established, along with a supporting staff. This change in organization places the oversight and Information Resource Management (IRM) functions within the organization possessing the technical expertise to evaluate and manage IRM programs.

- Prepared a revision to the Department's Automated Information System (AIS) Life-Cycle Management policies. The new policies, documented in the revisions to DoD Directive 7920.1 and DoD Instruction 7920.2, recognize a variety of AIS development and deployment strategies and fielding methodologies and a greater flexibility in program acquisition and development. This flexibility will allow the program manager to rapidly and logically acquire, develop, and deploy newer, critical systems that cannot or need not be developed using the traditional LCM model. The new LCM revision also marks the beginning of integration of the principles of CIM. The revised policy will be issued in early FY 1992 and has been extensively coordinated with the Services.

- Developed revised policy and procedures for oversight of DoD Federal Information Processing (FIP) resource contracts. Original policy was issued in 1987 and did not provide the requisite oversight to ensure proper visibility and control of major acquisitions. The provisions of the revised policy include oversight of strategic, tactical, and intelligence contracts, in addition to general FIP resource contracts. This oversight will include reporting by DoD Components of existing and planned major FIP resource contracts, including Warner Amendment-exempt contracts that meet the criteria of:

- (1) Estimated to cost \$100 million or more;
- (2) \$10 million or more for FIP resource contracts supporting a major AIS;
- (3) Declared special interest by the Office of ASD(C<sup>3</sup>I).

The new policy will be signed by the ASD(C<sup>3</sup>I) in early FY 1992 and will dramatically improve the level of knowledge and oversight of resources expended in acquiring new information technology resources within the Department.

- In early FY 1991, the Deputy Secretary of Defense assigned responsibility to the ASD(C<sup>3</sup>I) for establishing a CIM organization and approved the CIM implementation plan.

- A new organization was established to support CIM and a Director for Defense Information (DDI) was appointed by the ASD(C<sup>3</sup>I) in March 1991. The DDI has emphasized the functional information management (FIM) process and established three deputy directors for FIM: Finance, Personnel, and Health FIM; C<sup>3</sup>I FIM; and, Materiel and Logistics FIM. In addition, the DDI also created Deputy Directors for Policy and Information Technology. The DDI is implementing a functional information management process to document business methods, evaluate functional information management programs, and enable users to achieve improved information management support.

- The Defense Communications Agency transitioned into the Defense Information Systems Agency (DISA). This reflects the shift of DISA's focus from telecommunications to information services. To provide further valuable technical and program execution assistance, the Center for Information Management has been established within DISA. The DISA Center for Information Management will support new programs in data management, information systems engineering, infrastructure engineering and standards.

- The DDI established an Information Technology Policy Board (ITPB) to address joint technical issues, such as programming languages and compliance with data standards, that will require centralized policy direction. Representatives of the senior IRM officials of each Service, Defense Logistics Agency, DISA, Defense Intelligence Agency, the Joint Staff, National Security Agency, and Director, Defense Research and

Engineering are members. The ITPB is a working group that will assist in recommending Departmental actions on better use of information technology.

- Information system security functions were organized into one unit under the Deputy Assistant Secretary of Defense for Counterintelligence. Also, a number of security directives were either updated, or are nearing completion, including C5200.5, Communications Security; C5200.19, Compromising Emanations; 5200.2, AIS Security; 5200.28, Crypto Access; and, 5200.28M, ADP Security Manual.

- On September 26, 1991, the ASD(C<sup>3</sup>I) approved the new DoD Directive 8320.1, "DoD Data Administration." This directive realigns responsibilities and establishes a new policy for the DoD data administration function. A data administration support facility and associated DoD data dictionary capability were transferred from the Army to DISA. The Director, DISA was also appointed as the DoD Data Administrator. This transfer and consolidation will strengthen the Department's ability to standardize data definitions Department-wide. This, in turn, will aid in data sharing between functions and will enhance interoperability among the Department's information systems. The DoD Data Administrator has primary responsibility for continued development, implementation, and sustained support of DoD data administration procedures, standards, and programs. DoD Components and functional data administrators will be designated and will coordinate directly with the DoD Data Administrator.

With all of the new oversight and management policies in place regarding the various aspects of information technology and the organizational changes that have been effected, the DoD has made significant progress in Information Technology and ADP Security risk reduction.

**B. Planned actions/Events (short term - next 12 months):**

- The revised LCM and major contract oversight policies will be signed out to DoD Components by ASD(C<sup>3</sup>I) in the first quarter of FY 1992. This will provide increased capability to conduct oversight and will improve communications between the oversight group and the Component program managers.

- Policies pertaining to the Department's IRM program will be updated, revised and published. These include: DoD Instruction 7740.1, "DoD IRM Program;" DoD Directive 7740.2, "AIS Strategic Planning;" DoD Directive 7740.3, "IRM Review Program."

- The DISA Center for Information Management will provide increased technical support for new programs in data management, information systems engineering, infrastructure engineering and standards.

- DoD is refining an executive agent concept to migrate from multiple, redundant systems to joint information systems. This will improve the standardization, quality, and consistency of data and promote more effective information systems.

- DoD will develop a comprehensive plan for transition of the Department's data processing to a fee-for-service basis. This will provide functional and information managers insight into the cost and value of their information technology support. It will also facilitate decision making on a business economics basis.

**C. Planned Actions/Events (longer term):**

- Implementation of CIM will expand to all business areas. As the FIMs work with the functional area experts in each business area within the Department and the Components, opportunities will be identified to implement the CIM concept. In the process of analyzing the business processes, interfaces with other business areas will lead to examination of those areas for inclusion in CIM. Further, evaluation of all new major program requirements, through the oversight of the MAISRC, will identify potential duplication with other initiatives and may lead to consolidation of efforts or expansion of CIM to new business areas.

- DoD will convert its software technology acquisition capability to an industrial method of production by issuing standard software components from a standard repository. This will reduce maintenance costs and exposure to viruses and other inadvertent problem areas in the software development process.

- DoD will standardize data elements across the Department to ensure data integrity, data sharing, and interoperability. This will ensure compatibility of data among the Components and will improve data exchange and collection and will reduce costs associated with data conversion and interface.

- DoD will use approved Federal standards, as defined by the National Institute of Standards and Technology.

**Results Indicators:** In the downsizing of DoD, the Department will be scaling down combat resources by about 27 percent. DoD overhead costs and business processes must be reduced by approximately 33 to 35 percent. CIM is not an information technology program, but is expected to save in excess of \$2 billion in information technology.

The Department is now installing an aggressive approach to measure effectiveness of information technology. DoD will ensure sound functional economic analyses are done for each business area, prior to approving supporting information technology programs.

Assessment of Progress: The key to success in improving information management within the Department is the increased involvement of functional sponsors and proponents in both the Department and in the Components.

Integrating information management across the Department is a long-term challenge. The success of CIM hinges on the ability to standardize processes and data and to install an open systems architecture as DoD moves into an era emphasizing information management and reducing the risk in the use of information technology to accomplish that goal.

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**INFORMATION TECHNOLOGY/ADP SECURITY HIGH RISK AREA**  
**STATUS**

The following are supplemental disclosures by DoD Components affected by internal management control weaknesses in the Information Technology/ADP Security High Risk Area. They supplement the foregoing Departmental position on this high risk area.

**ARMY**

Special emphasis was given to internal management controls in the Information Mission Area and Life Cycle Management Information Systems. New policies and procedures have been established to replace obsolete ones. Publications on the following seven key areas were developed, staffed, published and distributed.

- Army Information Architecture
- Installation Information Services
- Information Mission Area Planning
- Information Systems Technical Documentation
- Configuration Management for Automated Information Systems
- Army Acquisition Planning for Information Systems
- Letter of Instruction for Test and Evaluation of Information Mission Area Systems

To ensure compliance with Army policies and procedures, and oversight of the acquisition process, the Department of the Army is revising its Letter of Instruction (LOI) for the conduct of major Automated Information Systems (AIS) reviews. The revised LOI will strengthen the management, oversight, review and approval of AIS. It will ensure that AIS programs which are being planned, developed, deployed, or operational, are reviewed, managed, and periodically approved by an Army Major Automated Information Systems Review Council (MAISRC) or MAISRC-like oversight process. The Army Audit Agency has been requested to review systems passing milestone III to ensure the Army is getting the proclaimed savings.

**NAVY**

Material weaknesses as identified by Department of the Navy components for the high risk area of Information Technology dealt with problems of duplication, incompatibility and increased expense associated with the design, development, operation and maintenance of information systems. Management lacked controls for changes, control growth and schedule slippages of major Automated Information Systems programs. Life Cycle Management documentation and approval continued to be a problem as systems were designed and developed.

An objective of the Department of the Navy (DON) is to ensure internal controls are implemented for these identified weaknesses. DON responsible managers made aggressive and fundamental changes in the management and conduct of Information Technology. These changes are expected to have the checks and balances needed to eliminate duplication and incompatibility as well as bring the resources/expenses under control. One major accomplishment has been the shift of overall responsibility for Information Resource Management to the Navy's Senior Acquisition Official. Management oversight now resides with the Deputy Assistant Secretary Command and Control, Communications, Computers, Intelligence, Electronic Warfare, and Space. A second factor which will strengthen internal controls of information technology is the establishment of a Chief Information Officer. This office will provide the day-to-day oversight of Information Resources for DON and will establish a requirements process for integrating similar functional requirements. DON also has drafted the structure and organization for an Information Systems Requirements Board. The board will review all significant requirements for information systems, prioritize those requirements and preclude the development of inappropriate redundant software development. DON is participating in a software sharing program which provides an automated repository of shareable quality software. During May 1991, DON issued a new Information Resources Strategic Plan. The plan covers a ten-year period from FY 1991 through 2000. It demonstrates management's objective of providing the proper controls as DON develops, acquires, modernizes, and operates its information resources.

DON continues to actively participate in the DoD CIM process. The goal of the CIM process is consolidation and standardization of business practices across the Department of Defense. In response to the Defense Management Report (DMR) for Controlling Information Technology costs, DON is evaluating the Information Technology environment to achieve maximum utilization of technology resources. The Navy Information Systems Management Center (NISMC) Strategic Plan provides the road map for achieving this action. However, Navy's capability to execute plans, programs, and instruction concerning Information Technology may be superseded by actions of the Department of Defense Corporate Information Management process.

#### AIR FORCE

During FY 1991, the Air Force has taken significant steps to draw-down, consolidate resources, and restructure. During this process, the Air Force has used internal management controls to manage automated information systems efficiently and effectively. The Air Force is implementing regional computer processing and fee for service methodologies in accordance with CIM and DMR objectives. In addition, the Air Force is rewriting the communications-computer systems series of regulations to

decentralize acquisition and management of communications-computer assets. The result will be more effective control because it places oversight responsibilities at the most appropriate level in the organization. Further, the Air Force Communications-Computer Systems Architecture (AFCSA) is being rewritten and refined to ensure it remains germane in the changing environment.

The Air Force developed and implemented an Air Force software management plan. The plan is action oriented and provides the framework to identify, develop, and implement appropriate software engineering policies and procedures. The action plan covers the entire spectrum of embedded and non-embedded software applications. The Air Force is also developing a software reuse strategy and a software metric insertion plan that will allow management to collect metrics to evaluate software management and performance.

The Air Force maintains strong acquisition program management and oversight through improvements in Automated Information Systems acquisition program management, program manager training, program contracting, life cycle management, and functional economic analyses. The result is a separation of the validation of the mission need from the analysis, development and evaluation of alternative technical solutions, and the approval of the most promising one for further development.

The Air Force published procedural and guidance documents assisting acquisition and development organizations in integrating, procuring, and managing computer security as an operational requirement. The Air Force also developed a Communications-Computer System Security Vulnerability Reporting Program (CVRP) that sets the DoD standard in assessing and enhancing the security posture of Communications-Computer Systems (C-CS). It integrates various security disciplines under a single threat-driven program, and fulfills all DoD level C-CS security reporting requirements. The CVRP database contains information on incidents, vulnerability, security survey matrix, hacker modus operandi, accreditations, technical resources and threats. The Air Force also developed the C-CS Security Management System to give subordinate units a database of accreditation information, vulnerability reporting information and incident reporting information, security posture assessment capability, report generation, and other features.

#### DEFENSE LOGISTICS AGENCY

The Defense Logistics Agency Information Resources Management (IRM) Program provides information technology services and information systems to accomplish and support the Defense Logistics Agency (DLA) mission which is to provide logistic services to the combat forces of the United States. The DLA IRM Program is directing its primary efforts to support



and implement the DoD concept of CIM. This concept provides for the management of information as a primary corporate resource for the use of standard data, information systems, and technology platforms, and for a much closer linkage between the business policies and strategies of the Agency and its information systems. This substantial effort assures significant improvements in the internal controls for this functional area.

To achieve the goals of CIM, the DLA IRM Program is working to implement both immediate and longer term changes. First and foremost, the objectives and visions of the IRM Program are being directly linked to the DoD CIM Plan, DoD Functional 2010 Planning, and the DLA Strategic Plan. This is being accomplished through the DLA IRM Plan which is, in turn, linked to the IRM Program Objective Memorandum/Budget Process, Systems Development Process, Technology Integration Process, and Acquisition Process. This chain of interlocking activities ensures that the products and services of the DLA IRM Program are fully responsive to the needs of DoD and DLA.

Current major IRM efforts underway are supporting modernization in those areas where DoD standard information systems will be implemented. These areas include the Defense Distribution System, Mechanization of Contract Services Administration System, Standard Automated Materiel Management System, the Defense Automated Addressing System, and the DLSC Modernization System.

In addition, the DLA IRM Program has a number of specific projects underway targeted to enhance service to customers throughout the DoD. These include the DLA Pre-award Contracting System, which automates Purchase Request management, solicitation, and award; the Engineering Data Management Information and Control System, which uses laser optical storage to facilitate engineering drawings storage and retrieval; the DRMS Automated Information System, which supports the reutilization, disposal, and hazardous materials handling functions; Cataloging Tools On-Line to support the item identification phase; and the Electronic Data Interchange, which provides standardized parameter for the electronic exchange of information between private industry and the Government.

The DLA IRM Program also has been testing the use and effectiveness of information engineering concepts and Computer-Assisted System Engineering (CASE) tools via the Contractor Profile project, has accomplished an Agency-wide business area analysis, and is in the process of revising its strategic plan using quality terms to identify new breakthrough strategies. The DLA IRM Program personnel have been and are participating in these efforts to ensure responsiveness of the program to mission requirements.

DLA's automated information systems that process unclassified sensitive information are required by DoDD 5200.28, Security Requirements of Automated Information Systems (AIS), to undergo a thorough risk management review to determine the adequacy of their security safeguards. AISs, whose safeguards are considered acceptable by the review, are recommended to the DLA Deputy Director for accreditation approval. AISs found not to be acceptable may receive interim approval to operate with the proviso that their security deficiencies be corrected within a set time period.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
INFORMATION TECHNOLOGY/ADP SECURITY HIGH RISK AREA  
WEAKNESS STATUS

The following is a summary listing of the internal management control weaknesses contained in this Annual Statement of Assurance which pertain to this high risk area.

Uncorrected Material Weaknesses

<u>Title</u>	<u>Page No.</u>
Review and Approval of Navy Information Systems	D2-101
Small Computer Management	D2-103
Unauthorized Software	D2-105
Security of Dial-up Modem Pool	D2-107
Security of Unclassified But Sensitive Info on Networks Used by DLA, but Operated/Owned by Contractors	D2-109
Army Information Architecture	D2-111
Defense Communications System Management Info Systems	D2-113
ADP Management	D2-115

Material Weaknesses Corrected this Period

<u>Title</u>	<u>Page No.</u>
Critical Design Review Criteria for Depot Maintenance Management Information Systems	D3-24
Continuity of Operations Plans for Critical Data Processing Systems	D3-25

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**CONTRACTED ADVISORY AND ASSISTANCE SERVICES HIGH RISK AREA**  
**STATUS**

**High Risk Area:** DoD reports that it annually spends about \$1.5 billion on Contracted Advisory and Assistance Services (CAAS). The Congress, the Office of Management and Budget and the Department of Defense Inspector General, all have indicated that the management, reporting and budgetary controls over CAAS need strengthening. For the foregoing reason, and managerial and audit findings, CAAS has been identified by the Office of Management and Budget as a high risk area.

**Pace of Corrective Action:**

**Year Identified:** 1989.

**Original Targeted Correction Date:** September 1991.

**Targeted Correction Date in Last Year's Report:** October 1991.

**Current Target Date:** September 1993.

**Reason for Change in Date:** During March 1991, a joint OMB/DoD "Tiger Team" was established to review and evaluate whether ongoing CAAS corrective actions would resolve identified problem areas. The team concluded that without a new oversight and management concept to replace OMB Circular No. A-120. "Guidelines for the Management and Use of Advisory and Assistance Services," corrective action would be superficial. A revised strategy and action plan was developed.

**Strategy:** Publish a Policy Letter covering all nonpersonal services rather than just those identified as CAAS. The Policy Letter should provide a framework for DoD and the civilian agencies to improve their acquisition management and use of nonpersonal services contracting requirements as well as improve the credibility of the management controls and tracking systems that contain information on the use of these services. DoD will continue to pursue its Defense Management Report (DMR) initiative to strengthen the management and reporting of advisory and assistance services and to revise as appropriate the DMR action tasks in response to the proposed Policy Letter.

### Critical Milestones and Dates:

<u>Critical Milestones</u>	<u>Completion Date</u>		
	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>

A. Completed Actions/Events: Not applicable (none).

B. Planned actions/Events (short term - next 12 months):

Office of Federal Procurement Policy (OFPP) will publish final draft of Policy Letter in the <u>Federal Register</u>	N/A	January 1992
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The Federal Acquisition Regulation (FAR) and DoD Directive and FAR Supplement will be changed to conform to the new guidance	N/A	September 1992
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C. Planned Actions/Events (longer term):

DoD to certify Executive Order No. 12352 (Federal Procurement Reform) that procedures are in place to ensure compliance with the Policy Letter	N/A	September 1993
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The DoDIG will conduct a review to determine if established procedures are adequate	N/A	December 1993
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Results Indicators: Result indicators have not been determined.

Assessment of Progress: The team efforts have resulted in the development of a proposed policy letter on "Management Oversight of Nonpersonal Services Contracting" to replace OMB Circular No. A-120. The policy letter eliminates the current focus on managing CAAS," by expanding the scope of coverage to include all nonpersonal services contracts. It establishes criteria for determining the extent of management detail and oversight needed based upon the services being considered for contracting out. Also, it requires each agency to identify a senior management official to be responsible for assuring that management controls are implemented and monitored to comply with the provisions of the policy letter. When the Office of Federal Procurement Policy announces that the policy letter is being published in the Federal Register, DoD will begin to develop an action plan for its implementation.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

This enclosure contains two lists. The first list, starting on page D1-2, enumerates those topical areas identified as having significant material weaknesses. Weaknesses reported for the first time during FY 1991 as well as those previously reported, and not yet corrected, are included in this list. The list includes the title of the weakness, fiscal year in which it was first reported, target year for correction reported in the FY 1990 FMFIA report, current target year for correction, and the page number in Enclosure D-2 where the material weakness and corrective action plan are described in greater detail.

The second list, starting on page D1-7, is a compilation of those material weaknesses corrected during FY 1991. The fiscal year in which the weaknesses were first reported and a corresponding page number in Enclosure D-3 are provided.

Weaknesses, both uncorrected and corrected, are listed and prioritized by the OMB category designations listed below. The first four categories contain the high risk areas of supply operations, contract administration, security assistance, and information technology. Within each category, weaknesses are listed chronologically, starting with the most current year, FY 1991. Additionally, weaknesses, both uncorrected and corrected, addressing high risk areas are presented first within each year.

Categories which are either high risk areas or contain high risk areas, are shown below in boldface type. The high risk area "Financial Accounting for Real and Personal Property" is a subsection of Cash Management and Debt Collection and "Contracted Advisory and Assistance Services" (for which no weaknesses have been reported) is a subsection of Procurement.

Property and Inventory Management, including **Supply Operations**, Property Management, and Manufacturing, Maintenance, and Repair.

Procurement, including **Contract Administration**, Major Systems Acquisition, and RDT&E.

Program Execution, including Security Assistance.

ADP/ADP Security, including **Information Technology**.

**Cash Management and Debt Collection**, including Comptroller/Resource Management functions.

Environmental Impact.

Personnel and Organizational Management, including Support Services.

Systems Development and Implementation, including Communication/Intelligence.

Other, including force readiness.

LIST OF UNCORRECTED MATERIAL WEAKNESSES

(DESCRIPTIONS FOUND AT ENCLOSURE D-2)

<u>Title</u>	<u>Year First Report</u>	<u>Correction FY Date</u>		<u>Page No.</u>
		<u>Last State- ment</u>	<u>This State- ment</u>	
<u>Property and Inventory Management</u>				
Control of Small Arms Spare Parts	1991	N/A	1992	D2-2
Requirements Determination for Ammunition & Centrally-Controlled Operating Stocks	1991	N/A	1992	D2-4
Accuracy of Repair Additive Requirements for Recoverable Items	1991	N/A	1992	D2-6
Financial Management of the Stock Fund	1991	N/A	TBD	D2-8
Maintenance, Repair, and Construction of MWR Facilities	1991	N/A	1992	D2-10
Property Accountability	1991	N/A	1992	D2-12
Material at Commercial Repair Facilities	1990	1991	1992	D2-14
Potential Excess Aircraft, Ship, and Submarine Parts	1990	1992	1992	D2-17
Control of Depot Maintenance Material	1990	1993	1993	D2-20
Review of Existing Shelf-Life Items	1990	1991	1992	D2-22
Review of New Shelf-Life Items After Entry into DLA Supply System	1990	1991	1992	D2-24
Development/Update of Storage Standards	1990	1991	1992	D2-26
Material Handling and Container Requirements	1990	1991	1992	D2-28
Management of Metrology and Calibration Program	1990	1992	1992	D2-31



<u>Title</u>	<u>Year First Report</u>	<u>Correction FY Date</u>		<u>Page No.</u>
		<u>Last State- ment</u>	<u>This State- ment</u>	
Control of Communications Equipment at Remote Locations	1990	1992	1993	D2-33
Property Accountability	1989	1995	1995	D2-35
Excess Inventory/Inventory Growth	1989	1990	1994	D2-38
Receipt Confirmation	1989	1991	1992	D2-41
Bench Stock and Stock Fund Operations	1989	1991	1992	D2-43
Drought Contingency Plans	1989	1992	1992	D2-46
Excess Property	1989	1991	1992	D2-48
Reutilization/Disposal of Excess and/or Unneeded Government Property	1989	1991	1992	D2-52
Controlling Contractors' Access to DoD Supply System	1988	1991	1992	D2-54
Carcass Tracking and Billing for Aviation Depot Level Repairables (AVDLRS)	1988	1991	1992	D2-56
Excess Materials	1988	1992	1992	D2-58
Fixed Asset and Other Person- al Property Accountability, Control, and Reporting	1988	1991	1993	D2-61
Receipt of In Transit Supply Shipments	1986	1991	1992	D2-64
Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	1986	1992	1993	D2-66
Special Tooling/Special Test Equipment Management	1986	1993	1993	D2-68

<u>Title</u>	<u>Year First Report</u>	<u>Correction FY Date</u>		<u>Page No.</u>
		<u>Last State- ment</u>	<u>This State- ment</u>	
<u>Procurement</u>				
Inappropriate Offloading of Contract Requirements	1991	N/A	1992	D2-70
Business Practices with Universities	1991	N/A	1992	D2-72
Spare Parts Breakout Program-Procedures	1991	N/A	1992	D2-74
Spare Parts Breakout Program-Provisioning	1991	N/A	1993	D2-76
Requirements Determination for Aircraft Acquisitions	1991	N/A	1993	D2-78
IMC Program Implementation within Special Access Programs	1991	N/A	1992	D2-80
Delinquency in Processing Contract Reports	1990	1991	1992	D2-82
Task Order Contracting	1990	1991	1992	D2-84
Contracting via Interagency Agreements	1989	1992	1992	D2-86
Nonconforming Material in DoD Supply System	1989	1993	1993	D2-88
Major Systems Acquisition	1989	1991	1992	D2-90
In-Process Reviews of Nonmajor Systems	1988	1991	1992	D2-92
Military Manpower/Hardware Integration Program	1988	1992	1992	D2-95
New Research Acquisition Program Initiatives	1987	1991	1992	D2-97
Duplicate Payments	1985	1992	1992	D2-99

<u>Title</u>	<u>Year First Report</u>	<u>Correction Last State- ment</u>	<u>FY This State- ment</u>	<u>Date Page No.</u>
<u>ADP/ADP Security</u>				
Review and Approval of Navy Information Systems	1991	N/A	1992	D2-101
Small Computer Management	1991	N/A	1992	D2-103
Unauthorized Software	1991	N/A	1994	D2-105
Security of Dial-up Modem Pool	1991	N/A	1993	D2-107
Security of Sensitive Info on Networks Used by DLA but Operated/Owned by Contractors	1991	N/A	1993	D2-109
Army Info Architecture	1990	1991	1993	D2-111
Defense Communications System Management Information Systems	1990	1996	1996	D2-113
ADP Management	1989	1991	1992	D2-115
<u>Cash Management and Debt Collection</u>				
Financial Accounting for Real and Personal Property	1991	N/A	TBD	D2-118
Civilian Retirement Claims Processing	1991	N/A	1992	D2-120
DESERT SHIELD/STORM Soldier Indebtedness	1991	N/A	1992	D2-122
Overstatement of DMIF Misc Inventory Expense	1991	N/A	1992	D2-125
Inaccurate DMIF Cost Accounting & Production Report	1991	N/A	1993	D2-127
Federal Insurance Contribution Act & Federal Income Tax Withholding Deposit Fund Balances	1991	N/A	1992	D2-129
General Ledger and Trial Balance Accounting	1991	N/A	1992	D2-131

<u>Title</u>	<u>Year First Report</u>	<u>Correction FY Date</u>		<u>Page No.</u>
		<u>Last State- ment</u>	<u>This State- ment</u>	
Base Contracting Automated System Interfaces	1991	N/A	1992	D2-133
Inaccurate and Unreliable Contract Accounting	1991	N/A	1992	D2-135
Retired Payroll and Check Register Microfiche Receipt & Retention-Disaster Recovery	1991	N/A	1992	D2-138
Financial Accountability of Property	1990	1993	TBD	D2-140
Negative Unliquidated Obligations	1990	1991	1994	D2-142
Outstanding Travel Orders and Advances	1990	1991	1995	D2-144
<u>Environmental Impact</u>				
Environmental Compliance Assessment Programs	1991	N/A	1992	D2-146
Defense Environmental Restoration Program	1990	1991	1992	D2-148
<u>Personnel and Organizational Management</u>				
Personnel Management and Administration	1991	N/A	1993	D2-150
Lack of Standardized Cost Reporting ROTC Programs	1991	N/A	1992	D2-152
Child Development Program at Maxwell AFB	1991	N/A	1992	D2-154
Lack of Baseline Manpower Survey	1990	1991	1992	D2-156
Family Service Centers	1990	1992	1992	D2-158
Effects of AIDS in the Military	1990	1992	1992	D2-160

<u>Title</u>	<u>Year First Report</u>	<u>Correction FY Date</u>		<u>Page No.</u>
		<u>Last State- ment</u>	<u>This State- ment</u>	
Morale, Welfare, and Recreation Program	1989	1991	1992	D2-162
<u>Systems Development and Implementation</u>				
Control of Telecommunications Resources	1991	N/A	1992	D2-164
Emergency Action Plans	1989	1991	1992	D2-166
<u>Other (Force Readiness)</u>				
Munitions Accountability/ Inventory Mgmt of Munitions	1991	N/A	1992	D2-168
Management of Aerial Targets	1989	1991	1992	D2-170
Automated Mobilization System	1988	1994	1994	D2-173
Force Readiness	1985	1993	1994	D2-175

**LIST OF MATERIAL WEAKNESSES CORRECTED IN FY 1991**

**(DESCRIPTIONS FOUND AT ENCLOSURE D-3)**

<b><u>Title</u></b>	<b><u>Year First Reported</u></b>	<b><u>Page No.</u></b>
<b><u>Property and Inventory Management</u></b>		
Control of Government Property to Prevent Misuse and/or Pilferage	1991	D3-2
Requirements Determination and Accountability	1990	D3-3
Quality Assurance on Aircraft Maintenance Contracts	1990	D3-4
Inadequate Controls Exist for Contractor Access to DoD Supply System	1989	D3-5
Management of the Asset Capitalization Program	1989	D3-6
Identification & Cataloging of Supply Items	1988	D3-7
Inaccurate Inventory/Stock Records	1986	D3-8
Inventory Accuracy	1986	D3-9
Subsistence Due-In Files	1985	D3-11
Improvements to Three DLA Subsistence Supply Systems	1985	D3-12
Management of Critical and Sensitive Property	1985	D3-13
<b><u>Procurement</u></b>		
Overpayments on Contracts	1991	D3-14
Time and Materials Contracts	1991	D3-15
Organizational, Reporting, & Communications Improvements within Acquisition Process	1991	D3-16
Architect-Engineer Contracting at Ramstein Base	1990	D3-17
Contracting through Interagency Agreements	1990	D3-18

<u>Title</u>	<u>Year First Reported</u>	<u>Page No.</u>
NATO Anti-Air Warfare System	1990	D3-19
Price Challenge Program	1989	D3-20
Warranty Administration	1986	D3-21

#### Program Execution

Financial Control Procedures for Contract Field Teams Supporting Foreign Military Sales	1990	D3-22
Security Assistance Operations	1989	D3-23

#### ADP/ADP Security

CDR Criteria for the Depot Maintenance Management Information Systems	1991	D3-24
Continuity of Operations for Critical Data Processing Systems	1988	D3-25

#### Cash Management and Debt Collection

Control Deficiencies in the Korean Local National Pay & Leave Accounting System Redesign Project	1991	D3-26
Unliquidated Credit Obligations	1991	D3-27
Retirement Controls	1991	D3-28
Lost Payment Documents and Contract Folders	1991	D3-29
Incorrect/Incomplete Accounting for Direct Remittance Payments for Retired Pay	1991	D3-30
Inconsistent Training & Lack of Understanding of Establishment of New Retired Pay Accounts	1991	D3-31
Failure to Identify all Receipts of Severance/Separations Pay	1991	D3-32
Inadequate Controls Over Incoming Remittances, Returned Checks, and Stop Pay Requests	1991	D3-33
Hazardous Waste/Materials Funds Control	1990	D3-34

<u>Title</u>	<u>Year First Reported</u>	<u>Page No.</u>
Fast Pay	1988	D3-35
Travel Advances	1985	D3-37
 <u>Personnel and Organizational Management</u>		
Management of Transient Housing	1990	D3-38
Hospital Infection Control Program	1990	D3-40
Third Party Collection Program	1990	D3-41
Reinvestigating Top Secret Clearances	1989	D3-42



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
PROBLEMS REQUIRING CORRECTIVE ACTION

This enclosure provides a description of those areas needing improvement which have been selected as being of significance to the Secretary of Defense, the President, and the Congress. Material weaknesses reported for the first time during FY 1991 as well as those previously reported, and not yet corrected, are described in this enclosure. For those pending material weaknesses where target dates for completion have been adjusted since the previous report, explanations are provided. DoD plans to track all material weaknesses until corrective actions are implemented.

Uncorrected material weaknesses and corresponding corrective action plans are described and prioritized in accordance with the OMB category designations listed below. The first four categories contain the high risk areas of supply operations, contract administration, security assistance, and information technology. Within each category, presentations are arranged chronologically, starting with the most current year, FY 1991. Additionally, pending material weaknesses addressing high risk areas are presented first within each year.

Categories which are either high risk areas or contain high risk areas, are shown below in boldface type. The high risk area "Financial Accounting for Real and Personal Property" is a subsection of Cash Management and Debt Collection and "Contracted Advisory and Assistance Services" (for which no weaknesses have been reported) is a subsection of Procurement.

Property and Inventory Management, including **Supply Operations**, Property Management, and Manufacturing, Maintenance, and Repair.

Procurement, including **Contract Administration**, Major Systems Acquisition, and RDT&E.

Program Execution, including Security Assistance.

ADP/ADP Security, including **Information Technology**.

**Cash Management and Debt Collection**, including Comptroller/Resource Management functions.

Environmental Impact.

Personnel and Organizational Management, including Support Services.

Systems Development and Implementation, including Communication/Intelligence.

Other, including force readiness.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Control of Small Arms Weapons Spare Parts

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Supply management procedures at the New York National Guard facility allowed thefts of weapons spare parts and other supplies to go undetected. The loss of weapons spare parts was detected during an investigation into thefts of military clothing. Personnel were stealing small weapons spare parts and using them to assemble complete weapons that were later sold. The personnel involved were responsible for all phases of small weapons repair from ordering replacement parts, making the repairs, and inspecting the repaired items. More parts were ordered than were actually needed to make the repairs. They then used the provisions in the Army Regulation which allow inventory discrepancies of \$50.00 or less to not be investigated. The parts were then physically taken to a non-government location for reassembly.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army National Guard

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Loss of small weapons repair parts and the subsequent illicit sale of weapons assembled from those parts was widely reported in the media. Members of Congress have also expressed an interest in this issue. While weapons spare parts are highly visible items, other components of other items may have the same procedural problems and should also be corrected.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	New York instituted procedures to require separation of duties in the small arms repair facilities.
C	The \$50.00 inventory discrepancy option was removed so that any dollar value discrepancy in weapons parts is investigated in New York.
C	Physical security at the warehouses involved was improved to include perimeter fencing repairs, placement of all weapons parts in controlled storage areas, keeping unmanned doors locked, and prohibiting parking of personal vehicles next to the warehouse.
C	All States were notified of this problem and advised to verify their own procedures.

Planned Milestones (FY 1992):

Date:	Milestone:
09/92	Modify Army Regulations 710-2 (Supply Policy) and 750-1 (Army Material Maintenance Concepts and Policies) to include policy on "Separation of Duties".

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: A team from the National Guard Bureau went to New York and evaluated the corrective actions taken.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Data used to determine requirements for ground ammunition were based on outdated war reserve requirements, incorrectly computed training requirements, and incomplete inventory statistics. The management of centrally-controlled operating stocks was not effective as on-hand quantities were not adjusted to reflect authorized allowances.

Component/Appropriation/Account Number: Navy/Procurement, MC, 17X1109

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The scope of this material weakness includes about 701 centrally-controlled items valued at \$2.3 billion and 86 ground ammunition items. Inaccurate requirements data for munitions and ineffective management of centrally-controlled operating stocks can affect readiness or result in either excessive or insufficient procurements.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C	Limit the mid-term ammunition requirements for mobilization to the Selected and Individual Reservist.
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C            Cancel excess ammunition procurements planned for  
FY 1991 through FY 1994.

Planned Milestones (FY 1992):

Date:	Milestone:
11/91	Project annual training expenditures based on criteria provided by appropriate guidance.
11/91	Review requirements and adjust procurements based upon the results of the improved requirements determination process.
11/91	Review and reconcile item allowance with inventory records making appropriate adjustments and order items to correct deficiencies or report excess for redistribution.
11/91	Require activities to report quarterly to headquarters the results of reconciliations of allowances with inventory records.
11/91	Require activities to report annually the results of comparisons of on-hand balances to include actions taken to either order items to correct deficiencies or report excesses for redistribution.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Corrective actions are certified by the responsible DON component upon completion and reviewed through subsequent audits, inspections, and/or quality assurance reviews. Certification will commence upon completion of the final milestone of corrective action, which has an estimated completion date of November 30, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Accuracy of Repair Additive Requirements for Recoverable Items

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Inadequate guidance for computing Wholesale Interservice Supply Support Agreement (WISSA) additives resulted in erroneous additive requirements in some instances.

Component/Appropriation/Account Number: Air Force/Air Force Stock Fund, 57\*4921.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Accuracy of some recoverable item requirements could be impaired.

Source(s) Identifying Weakness: Air Force Audit Agency

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Reemphasize importance of proper determination and documentation of additive requirements.

Planned Milestones (FY 1992):

Date: Milestone:

11/91 Clarify/expand guidance for computing additives, especially WISSA additives.

01/92      Implement automatic conversion of other services'  
incoming requirements data to the Recoverable  
Consumption Item Requirements System.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: Periodic HQ functional reviews of WISSA  
additive requirements.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Financial Management of the Stock Fund

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: The Office of the NSA Inspector General identified weaknesses related to the Automated Supply System. Problems relate to (1) a lack of effective internal controls for transferring financial data from the system; (2) inadequate software documentation and testing; (3) inadequate financial information to manage cash; and, (4) lack of precertification of customer funds before obligation.

Component/Appropriation/Account Number: National Security Agency (NSA)/Operation and Maintenance; Procurement

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: TBD

Reason for Change in Date(s): NA

Impact of Weakness on Operations: If not corrected, the stock fund will continue to experience inaccurate, unreliable and untimely data in its financial statements; unnecessary expenditure of staff hours to perform manual corrections and record financial transactions; overcharges to customer funds, with consequent accumulation of excess cash reserves beyond the Fund's needs; and, unprogrammed increases and decreases in the O&M funds needed from customers, in some cases after annual appropriations have already expired.

Source(s) Identifying Weakness: NSA IG Audit Service



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

TBD

Planned Milestones (Beyond FY 1992):

Date: Milestone:

TBD

Validation Process: TBD

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Maintenance, Repair and Construction of MWR Facilities

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Appropriated funds were improperly used to install a water line between a waste treatment plant and a nonappropriated fund (NAF) facility.

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400, and Nonappropriated Funds.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Misuse of funds for MWR facility improvement projects could result in violations of the Antideficiency Act.

Source(s) Identifying Weakness: Air Force Audit Agency

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Develop and implement an Air Force wide needs assessment requirement for MWR construction projects.

Planned Milestones (FY 1992):

Date: Milestone:

11/91 Secure appropriate NAF approvals for the irrigation water line project.

01/92      Effect NAF funds transfer to appropriated fund  
            account.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: Air Force audits and IG inspections, and  
continuing HQ Command level scrutiny of MWR projects.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Property Accountability

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: A DoDIG Audit conducted during FY 1991 revealed that controls over investment and expense equipment at DMA were inadequate. The audit specifically addressed: missing property; failure to conduct required inventories; untimely recording of equipment transactions; and lack of appropriate critical elements in the performance plans of accountable officers and property custodians.

Component/Appropriation/Account Number: Defense Mapping Agency/Operations and Maintenance, Defense Agencies (Defense Mapping Agency)

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Agency equipment may be exposed to risks of loss and misappropriation and established safeguards degraded.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C DMA Office of Acquisitions, Installations, and Logistics (DMA AQ) assumed oversight responsibility for equipment accountability.

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Director's reemphasis to managers.
11/91	Revision of Equipment Management Team Instruction (DMA Instruction 4004.1).
04/92	Completion of DMA Aerospace Center (DMAAC) 100 percent inventory.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: When the DoDIG Audit recommendations are implemented, Internal Management Control Review/Risk Assessment will be performed. The study team will be comprised of Headquarters DMA (including the DMA IG) and Component personnel. Equipment Management Team Surveys of 50 percent of the equipment accounts will be conducted in each DMA Component. Certification Date: September 30, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Material at Commercial Repair Facilities

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Supply and financial records did not accurately reflect the quantity of material sent to commercial activities for repair. The inaccuracies occurred because the Navy did not have adequate systems for monitoring material sent to commercial facilities, DoD repair facilities through Depot Maintenance Interservice Support Agreements, and because of inadequate commercial repair facility status reports. Facilities that reported through the automated Commercial Asset Visibility (CAV) program and non-CAV facilities that reported manually failed to provide adequate accountability for the material. Additionally, the Navy Material Center was not informed of excess on-hand material at one facility which could have been used by other services/activities.

Component/Appropriation/Account Number: Navy/Navy Stock Fund, 17X4911.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Recent Corporate Information Management (CIM) initiatives have delayed developments in new commercial reporting systems.

Impact of Weakness on Operations: Understated supply records prevent the Navy from identifying material that may be available for use, and unnecessary procurements may result. Overstated supply records can adversely affect readiness since the Navy may be relying on nonexistent resources. Inaccurate supply reports and financial inventory records may cause incorrect budget requirement computations. These deficiencies resulted in a potential one-time cost avoidance of \$17.7 million (an additional \$1.2 million identified in FY 1991).

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Establish procedures to verify assets held by commercial facilities when making supply decisions.
C	Ensure that appropriate DON components made aware of no evidence of failure information reported by commercial repair facilities.
C	Validate records of material due-in from repair when making supply decisions.
C	Establish procedures for periodic verification of commercial facilities' proper use of the CAV reporting program.
C	Develop procedures for posting commercial repair transactions to financial inventory records.
C	Notify all repair contractors, not in compliance, to prepare Monthly Repair Status Reports in accordance with requirements.
C	Require repair contractors under indefinite quantity-type contracts to report material received under those contracts.
C	Adjust Financial Inventory Control Ledgers to reflect standard unit price changes.
C	Make accounting entries, prior to the close of the fiscal year, to eliminate any remaining negative inventory balances from the year-end Financial Inventory Report.
C	Obtain inventory of material held for storage at commercial repair facilities and take appropriate disposition action.
C	Establish procedures to verify records of assets held by interservice repair facilities.
C	Establish procedures for periodic verification of repair items reported on monthly status reports to ensure inventories at interservice repair facilities are properly reported.

- C        Maintain Financial Inventory Control Ledgers for all commercial facilities.
- C        Establish procedures at Interservice Repairs facilities to prevent Navy assets from being misidentified, commingled with non-Navy assets, or lost.
- C        Develop procedures to provide constant visibility over excess material and promptly offer the material to other services when appropriate.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Use Monthly Repair Status Reports for non-Commercial Asset Visibility commercial facilities to update supply records.
12/91	Determine validity of Financial Inventory Ledger balances for one-time repair contracts and adjust to show correct value.
12/91	Revise guidance on the physical inventory program at Interservice Repair Facilities.
12/91	Perform quarterly reconciliation between financial and supply records.
12/91	Coordinate with other services to develop a standardized system for reporting and recording assets on Financial Inventory Control Ledgers.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of December 31, 1991.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Potential Excess Aircraft, Ship and Submarine Parts

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Navy's secondary item inventories have grown significantly since 1980. Inventories of spares and repair parts grew by \$20 billion during the 1980s. The quantity of material retained on hand above the Approved Force Acquisition Objective (AFAO) is cause for concern. The AFAO is the current inventory requirement, and includes assets for inventory levels (e.g., repair cycle level, safety level), anticipated issues, and for funded war reserve projects. Material on hand that exceeds AFAO quantities is categorized for retention or as potential excess, depending on each item's weapon system application, essentiality, and anticipated demand. Material in this category grew by over \$8 billion from FY 1980 to FY 1989. The material was retained on hand due to a DoD-imposed restriction on the disposal of inventory that had application to any active weapon system.

Component/Appropriation/Account Number: Navy/Navy Stock Fund, 17X4911; and Operations and Maintenance, Navy, 17 1804.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The quantity of potential excess material on hand takes up valuable storage space, and reducing the number of items managed may provide some productivity benefits for both stock point and inventory control point item managers.

Source(s) Identifying Weakness: General Accounting Office and the DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Stop the practice of buying more than the economic order quantity, unless there is such specific justification in each case in which a quantity discount more than offsets the additional holding costs.
C	Require item managers for ship and submarine parts to retain summary data for major items showing the basis for an item's most recent procurement and events affecting the item.
C	Specify the scope of supervisor's review of item managers' validation of excess on-order positions.
C	Update procedures for authorizing and approving changes to requirements and asset data.
C	Require training for item managers on validating excess on-order validations.
C	Establish policies and procedures requiring the use of excess on-order assets as Government Furnished Material on production contracts.
C	Review policy on terminating orders for unrequired items at all levels to ensure they clearly support termination.
C	Program established that will decrement data held in file for ships designated to be decommissioned. Also, eliminated Planned Program Requirements to further reduce spare parts buys.

Planned Milestones (FY 1992):

Date:	Milestone:
07/92	Establish procedures to inform ship and submarine part inventory control points about systems being phased-out or replaced, require inventory records to be coded to identify the items and ensure that purchases of such items are made only for immediate needs.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of July 31, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Control of Depot Maintenance Material

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Lack of control and accountability of excess material in the Depot Maintenance Shop environment. Material could not be identified to end items of work in progress.

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Inaccurate spares projections and purchases of supportable materials could result in materials inventory that does not meet current requirements.

Source(s) Identifying Weakness: DoDIG, Air Force Audit Agency and the General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Identify and document excess material.
C	Turn in material with no future requirements.
C	Complete tracking of excess shop material.
C	Use material with current requirements.

- C Turn in all remaining material to distribution organization.
- C Develop and issue policy and procedural guidance to ensure effective procurement use and control of shop materials.

Planned Milestones (FY 1992):

Date: Milestone:  
None

Planned Milestones (Beyond FY 1992):

Date: Milestone:  
10/92 Implement automated Depot Maintenance Management Information System (DMMIS).

Validation Process: Certification through continued shop floor cleanup initiative, Exchangeable Production System (EPS, G402A), front end edits, Inventory Tracking Systems (ITS) and implementation of the Pacer Integrate and Depot Maintenance Management Information System (DMMIS) initiatives.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Review of Existing Shelf-Life Items

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: In 1986, DoD levied a requirement on DLA to ensure existing shelf-life items are reviewed for proper shelf-life coding. The IG, DoD found that DLA did not perform the required reviews on existing shelf-life items.

Component/Appropriation/Account Number: Defense Logistics Agency/Defense Business Operations Fund, 97X4930

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): The intense management required to successfully accomplish the Operation Desert Shield/ Storm effort prevented one of our Supply Centers from completing their review in the timeframe established.

Impact of Weakness on Operations: A review of existing items ensures that items are properly coded in the shelf-life program. Proper coding is essential so that items are managed correctly. This will ensure that disposals for erroneous coding are eliminated and will reduce waste in DoD.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Forward letter to Defense Supply Centers directing review.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Complete review.
03/92	Validate results.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Review of New Shelf-Life Items  
After Entry into the DLA Supply System

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory  
Management

Description of Material Weakness: In 1986, DoD levied a  
requirement on DLA to ensure new shelf-life items are reviewed  
for proper shelf-life coding. The IG, DoD found that DLA did  
not perform the required reviews on new shelf-life items.

Component/Appropriation/Account Number: Defense Logistics  
Agency/Defense Business Operations Fund, 97X4930

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): The intense management required  
to successfully accomplish the Operation Desert Shield/Storm  
effort prevented one of our Supply Centers from completing their  
review in the timeframe established.

Impact of Weakness on Operations: A review of new items after  
entry into the DLA Supply System ensures that items are properly  
coded in the shelf-life program. Proper coding is essential so  
that items are managed correctly. This will ensure that  
disposals for erroneous coding are eliminated and will reduce  
waste in DoD.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Forward letter to Defense Supply Centers directing  
review of new shelf-life items.



C            Set up system to review new shelf-life items.

Planned Milestones (FY 1992):

Date:        Milestone:

01/92        Submit review of new shelf-life item report to HQ  
DLA.

Planned Milestones (Beyond FY 1992):

Date:        Milestone:

None

Validation Process: Physical verification procedures will be  
used to certify effectiveness of the corrective actions.  
Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Development/Update of Storage Standards

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: A procedural weakness exists caused by not inspecting or testing extendible shelf-life items. The DoD IG found that DLA did not develop and update storage standards as required.

Component/Appropriation/Account Number: Defense Logistics Agency/ Defense Business Operations Fund, 97X4930

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): A new joint Service/ Agency storage standard regulation, DLAR 4155.37, is scheduled for publication in the first quarter FY 1992. DLA is using this new regulation to prepare its storage standards.

Impact of Weakness on Operations: Outdated or incomplete storage standards increase the dollar value of shelf-life disposals caused by not inspecting or testing extendible shelf-life items.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Forward letter to Defense Supply Centers directing development/update of standards.

Planned Milestones (FY 1992):

Date:	Milestone:
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10/91	Publish joint Service/Agency storage standard regulation.
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09/92	Complete development/update of storage standards.
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Planned Milestones (Beyond FY 1992):

Date:	Milestone:
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	None
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Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Material Handling and Container Requirements

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Mission area analyses were not conducted to determine the numbers and types of container handling equipment planned to support amphibious landings. Activities did not adequately analyze and review the requirements to acquire new forklifts for the Fleet Marine Forces, did not consider overlapping capabilities of new equipment in setting allowances, and set allowances for artillery units higher than needed. Also allowances were established for Intermediate Size Containers which exceeded previously approved quantities and user requirements.

Component/Appropriation/Account Number: Navy/Procurement, MC, 17 1109; Operations and Maintenance, MC, 17X1106; Navy Stock Fund, 17X4911; and Research, Development, Test and Evaluation, 17X1319.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Development of the Required Operational Capability (ROC) documents hinges on the completion of a Mission Area Analysis (MAA). Upon receipt of the MAA results, required ROC documents will be prepared.

Impact of Weakness on Operations: The numbers and types of container handling equipment, forklifts, and total life cycle cost for acquisition of Intermediate Size Containers could be overstated. A potential one-time cost avoidance of \$133 million may be realized.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Terminate the Container Handler All Purpose Program.
C	Review and approve all changes to Fleet Marine Force Intermediate Size Container requirements.
C	Delete, insert and rack completed acquisitions for 332 quadruple containers.
C	Cancel the product improvement program for Intermediate Size Containers.
C	Conduct a mission area analysis of container handling requirements.
C	Correct the life cycle estimate for one Intermediate Size Container and reduce planned procurement of horizontal connectors from four to three.
C	Reduce Intermediate Size Container requirements.

Planned Milestones (FY 1992):

Date:	Milestone:
06/92	Determine the feasibility of increasing the off load time for Assault Echelon supplies. Feasibility will be reviewed during Mission Area Analysis.
06/92	Perform mission analysis for forklift requirements for the Fleet Marine Force.
08/92	Review and revalidate forklift requirements for artillery units.
08/92	Develop consolidated Required Operational Capability document for all container handling equipment.
08/92	Develop consolidated Required Operational Capability document for forklifts.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of August 30, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Management of the Metrology and Calibration (METCAL) Program

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: The METCAL Program is neither effective nor efficient. Calibration actions are not always documented because of inadequate oversight and guidance. System of reviewing calibration intervals is ineffective. Equipment remains in service beyond its scheduled calibration due dates because of poor maintenance practices. Data used to manage the program are inaccurate and incomplete. Activities retain equipment not currently needed to accomplish their mission. Personnel do not always document the procedures and calibration test equipment used when calibrating equipment.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804; Other Procurement, Navy, 17X1810

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Incomplete interval reviews could result in \$23.7 million annually in unnecessary calibration actions for non-critical test equipment. Poor record maintenance could result in unnecessary expenditures of \$1.6 million annually and unjustified retention of redistributable equipment could result in unnecessary purchases of about \$81 million.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Direct all commands to perform a management control review on the METCAL Program.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Include all calibration equipment into the automated interval analysis system.
08/92	Revise "The MEASURE Users Manual" to provide guidance for documenting the procedures and test equipment used for calibrating.
08/92	Establish procedures to review equipment requirements periodically to identify excesses and deficiencies.
08/92	Direct equipment custodians to report equipment that is excess to their immediate requirements.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through an Internal Management Review. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of August 1, 1992.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Control of Communications Equipment at Remote Locations

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Accountable capital property held at various DoD sites worldwide cannot be tracked to a single accountable inventory. This inventory is necessary for both accounting and logistics purposes to ensure adequate control and accountability over Government resources. Maintenance of control is critical as this property represents the equipment utilized to operate Defense Communication System (DCS) Networks such as the Defense Data Network (DDN).

Component/Appropriation/Account Number: Defense Information Systems Agency/Defense Industrial Fund, 97X4962

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1993

Reason for Change in Date(s): Slippage caused by the quality checks used to ensure the effectiveness of the corrective actions.

Impact of Weakness on Operations: If this weakness is not corrected, the audit trail required under accounting systems requirements under Title 2 Standards for Accounting Systems cannot be met. In addition, lack of a complete consolidated record of property held may affect budget estimates as well as configuration management decisions.

Source(s) Identifying Weakness: Internal Management Control Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Formally assign responsibility for worldwide management of warehoused and deployed DCA equipment to a single manager.
C	Formally train contractor personnel that are assigned equipment management responsibility in their specific functions in managing DCA property.

Planned Milestones (FY 1992):

Date:	Milestone:
08/92	Verify inventory of equipment warehoused and deployed, located in Conus and Overseas.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
10/92	Reconcile inventory records for accounting and logistics purposes, both warehoused and deployed, including comparison with asset procurement records.
11/92	Establish continuous reconciliation and update procedures to ensure records are maintained.
05/93	Test to ensure procedures are in place. In the process of developing the procedures, interim tests will be done to ensure the effectiveness of the procedure in maintaining a valid inventory.

Validation Process: As part of an internal control review, the new inventory and inventory procedures will be tested. The Inspector General could assist in this testing.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Property Accountability

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Audits continually report that on-hand assets are not recorded, thus, increasing the risk of undetected losses. Major weaknesses involve record keeping plus performance of physical inventories and causative research on discrepancies. The Army needs to move to an integrated "seamless" supply system that will enhance property accountability. Imbedded in the supply system should be the means to reduce undetected losses of property, assure inventories are scheduled and conducted on time, check shelf-life items as required, and make proper random quality assurance checks on receipts.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army; Army Stock Fund; Procurement

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Failure to correct this weakness would impair the Army's ability to perform physical inventories, to accomplish causative research on noted discrepancies, and to maintain accurate property accountability records. More specifically, on-hand assets may not be recorded, increasing the risk of undetected losses; or recorded assets may not be located when needed, potentially impairing personnel and weapon system readiness.

Source(s) Identifying Weakness: Internal Management Control Review, DoDIG, US Army Audit Agency, General Accounting Office, Internal Review Organization, Army IG Inspection

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Request field commanders invest equivalent audit coverage by local internal review organizations.
C	Begin to implement Defense Management Report Decisions which directly influence the scope of this material weakness.
C	Emphasize to commanders that by using the Command Supply Discipline Program (CSDP), property accounting will be ensured at the retail level.
C	Emphasize to AMC that by using the Inventory Control Effectiveness (ICE) indicators, property accounting will be ensured.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Request that commanders use the Command Inspection Program as described in AR 1-201 to focus continuing and comprehensive coverage on item accountability with the primary objective of pinpointing the underlying causes and specific corrective actions needed.
06/92	Establish a quantitative baseline for select management indicators and establish an annual progress report.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
09/94	Implement replacement automated system called SARSS Objective beginning FY 91. SARSS will provide for sequentially enhanced property accounting through preassigned internal decision logic, and time oriented reports at the installation/OCONUS theater level.
11/94	Implement approved MILSTRAP Change 8 to concentrate wholesale inventory resources on the items and functions from which the most benefits will be derived.

Validation Process: Verification by the Command Logistics Review Program (for actions to be accomplished by Army units) and verification by the MACOM and HQDA functional proponent using management reports which track progress against established baselines for selected supply management performance indicators.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Excess Inventory/Inventory Growth

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Over the past several years, numerous external and internal analyses identified systemic weaknesses related to growth of excess or inapplicable inventory, unnecessary procurements, and ineffective use of assets which are in long supply. The result was sub-optimal use of available resources. A significant portion of the Army's secondary item inventory exceeded normal requirements levels. Excess materiel retention policies and procedures needed streamlining. Also, the lack of vertical asset visibility by item managers at the Inventory Control Points over assets at retail activities resulted in uneconomical buys and disposals. At some buying commands, Army policy for reducing quantities of items procured was not being followed. Internal controls ensuring compliance with established guidance for determining spare parts requirements needed to be strengthened.

Component/Appropriation/Account Number: Army/Army Procurement Appropriations; Army Stock Fund; Operations and Maintenance, Army

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1990

Current Target Date: FY 1994

Reason for Change in Date(s): This material weakness was closed in FY 1991 due to a significant reduction in the materiality of the problem. Due to lessons learned from Desert Storm and the relationship of this weakness with the implementation of Defense Management Review Decisions, Force Reduction, Base Realignment and Closures, Quicksilver, and Conventional Forces Europe, this material weakness is reopened. Army leadership recognizes the impact of excess inventory/inventory growth on property accountability and still considers the weakness to be a high risk area.

Impact of Weakness on Operations: In general, Army inventories would not be properly sized to meet current and future needs at least cost and reduce annual materiel budget requirements in a systematic manner, while preserving the gains in weapon system and personnel readiness from the Defense strategy of the 1980's. Specifically, selected inventory items would remain stable but excess to current and future needs and other items would continue to grow. The inventory excess of 5.5 billion documented when this weakness was first reported by the Army would continue to grow. An inventory management problem of this magnitude would also impact the public and congressional perceptions on the Army's ability to effectively manage its resources. Poor public perceptions could eventually lead to the undermining of public support for essential Army programs.

Source(s) Identifying Weakness: Internal Management Control Review; US Army Audit Agency; General Accounting Office; Army IG Inspection

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

- C Minimize unneeded procurements by reinforcing adherence to established guidance through the following: (a) Direct Army Materiel Command to use Staff Assistance Visits and other command reviews to ensure buying commands follow procurement procedures. (b) Army Materiel Command, and subordinate buying commands, initiate changes to ensure compliance with policy, strengthen internal controls, and reduce unnecessary order quantities.
- C Complete a detailed examination and potential restructuring of wholesale inventory management retention policies and procedures. This study will analyze existing practices at all management levels, determine the reasons for inventory growth, and examine the impact of future resource constraints. The study output will be a separate action plan streamlining regulatory guidance in order to provide a framework for the Army to optimize its investment in secondary item inventory at the wholesale level.
- C Within the Army Materiel Command, make more effective use of long supply assets by using existing automated process to match long supply assets against depot repair programs. Feasibility test the application of this process for all

inventory control points during FY 1989-90. Upon completion, conduct appropriate cost/benefit analysis prior to command-wide implementation decision.

- C At wholesale level, expand SIMS-X items to increase levels of asset visibility. Provide changes to policy and systems software changes to require use of SIMS-X data in requirements computation and buy decisions.
- C Prototype the Objective Supply Capability (OSC) and conduct Software Acceptance Test (SAT) at Fort Hood.
- C Initiate OCONUS prototyping in USAREUR and Southwest Asia.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Lead Verification Site Test at Fort Hood.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
09/94	Achieve worldwide asset visibility of inventory at retail level, and develop system which allows redistribution of assets to satisfy requirements elsewhere and to preclude unnecessary buys or premature disposals. (This milestone will begin in FY 92 but won't be completed until FY 1994.)
09/94	Export OSC to remainder of US Army.

Validation Process: Verification by MACOM functional staffs (for actions to be accomplished by MACOM and their subordinate commands) and direct verification by the functional proponent (for actions to be accomplished by the ARSTAF).



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Receipt Confirmation

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Under the source acceptance method of expedited receipt, payments are made based on government inspection and acceptance of material at vendors' plants rather than upon receipt at government facilities. Navy systems did not have adequate controls to ensure that depots received material paid for on the basis of source acceptance. Additionally, controls over initial spares shipped from contractors to storage and user activities were inadequate. Internal control procedures had not been established to ensure that activities received initial spares and recorded the receipts in a timely manner.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804; Weapon Procurement, Navy, 17X1507; Aircraft Procurement, Navy, 17X1506; Shipbuilding Conversion, Navy, 17X1611; and Other Procurement, Navy, 17X1810.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): A change in the fiscal year is the direct result of delays incurred in the implementation of a Material Management System, delays in the development of an inventory database system and the testing and validation of proposed revised procedures.

Impact of Weakness on Operations: Receipt confirmation and timely recording of receipts are the only basis for assuring that the government either receives what it paid for or recovers payments for items not received.

Source(s) Identifying Weakness: General Accounting Office and the DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Establish interim procedures to ensure follow-up and recognition of in-transit source accepted shipments.
C	Implement revised Navy systems containing automated procedures to accomplish the necessary reconciliation and follow-up of in-transit source accepted shipments.
C	Establish a system to follow-up on initial spares shipments that storage and user activities have not acknowledged as being received.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Establish and implement controls to require storage and user activities to acknowledge and record initial spares receipts within 60 days of date of shipment. The Interim Contractor Supply Support Systems is 100% percent implemented.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of January 31, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Bench Stock and Stock Fund Operations

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: An examination of stock operations at NSA and its field sites revealed inadequate controls in the areas of documentation, excess stock, expired shelf-life stock, inventory research, and the issuance and usage of bench stock. Controls are needed to ensure that appropriate levels of stockage are maintained and that when required, inventory adjustments are properly researched.

Component/Appropriation/Account Number: National Security Agency (NSA)/Operation and Maintenance; Procurement

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Completion of this weakness depends on modifications to the FRESHMAN (formerly ANISETTE) System. System Change Requests (SCRs) have been submitted for enhancements for bar coding processing and are being accorded the highest priority (all audit and IMC actions) by order of the Assistant Deputy Director for Installations and Logistics. Delay in correction of this weakness was caused by the requirement for available resources to attend to daily upkeep of the FRESHMAN System.

Impact of Weakness on Operations: The software measures being developed to satisfy correcting the weakness will permit shelf life determination for stock items, thus eliminating the potential for issuing expired stock and the resultant impact on the Agency's mission. The expanded use of bar coding will increase accountability for property items and reduce the level of property loss.

Source(s) Identifying Weakness: Internal Management Control Review and the DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Ensure NSA Form J5737 is properly completed prior to placing new items in the NSA Stock Fund.
C	Material management action was coordinated with the office of material management to ensure compliance with current policies and procedures. NSA/CSS Manual 60-1, Change 2, was distributed.
C	Conduct one-time review of item usage; complete specifications for Shelf Life Software.
C	Complete outline of Software Requirement Specification (SRS) for Bar Coding.
C	Coordinate Shelf Life and Bar Coding.
C	Obtain control of Building 9812 for Bench Stock use.
C	Complete draft SRS for Bar Coding.
C	Complete initial programming for Shelf Life software.
C	Complete off-site issue/stock and receiving functional area testing for Shelf Life program.
C	Complete full system shelf life test off-site.
C	Complete SCR for Shelf Life program to incorporate necessary clauses into the PR line item description.
C	Coordinate draft SRS for Bar Coding; ready documentation and review.
C	Complete final SRS for Bar Coding.

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Integration testing and implementation of Shelf Life software completed. System running.
10/91	Building 9812 fitted with storage equipment.

10/91	Begin transfer of excess stock to Building 9812.
10/91	Consolidation and identification of material from all bench stock locations to Building 9812.
01/92	Begin to inventory and establish stock records in the Benchside Inventory Control (BIC) System.
06/92	Complete inventory and establishment of stock records in the BIC System.
06/92	Complete programming, unit testing, integrated testing and implementing a Bar Coding System.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Validating the effectiveness of each software "fix" will be done by checking the process results to which the software is applied. The continuing process of excess stock item reviews will also show stock items that have reached or exceeded their shelf life, which will serve as a cross check on the effectiveness of the new shelf life software. Validating the effectiveness of the Bar Coding software modifications will appear in reviews of Personal Property Inventories to ensure actual material delivery to customers is being properly documented. Consequently, there should be an increase in the accuracy of Personal Property Inventories, and a reduction in the number of inventory items needing reconciliation.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Drought Contingency Plans

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Drought contingency plans were not developed for all controlled reservoir storage projects based upon an analysis of user needs, downstream inflows, and worst-case situations.

Component/Appropriation/Account Number: Army/Civil Works

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: If this weakness is not corrected, essential services such as hydroelectric power generation may not be provided to the public.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	For Savannah River System only, review water supply needs periodically with the initial review accomplished in FY 1990.
C	For Savannah River System only, reanalyze downstream inflow data.
C	For Savannah River System only, conduct a worst-case analysis.

Planned Milestones (FY 1992):

Date: Milestone:

09/92 For all Controlled Reservoir Projects prepare drought contingency plans as follows: (a) Complete 214 Plans through the end of FY 1991, and (b) Balance schedule for completion by end of FY 1992.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Management review of quarterly updates of progress toward goals and during budget review process.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Excess Property

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Problems included lack of oversight and retention of items despite insufficient demand, inaccurate property records and property accountability, requisitions exceeding authorized quantities, failure to follow regulations for validating and cancelling unneeded on-order material, and untimely preservation of war reserve material. There is potential for much waste and misuse of property.

Component/Appropriation/Account Number: Navy/Navy Stock Fund, 17X4911; Operation and Maintenance, Navy, 17X1804; Other Procurement, Navy, 17X1810; Shipbuilding Conversion, Navy, 17X1611; Weapon Procurement, Navy, 17X1507; Aircraft Procurement, Navy, 17X1506; Operation and Maintenance, MC, 17X1106; and Procurement, MC, 17X1109.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Delays have been encountered in the development and issuance of revised guidance. Additional programming support was required for CAMMS prior to further implementation.

Impact of Weakness on Operations: Excessive and wasteful budgetary requests can be made. Funds and property, in excess of needs, have been wasted and misused.

Source(s) Identifying Weakness: Naval Audit Service, General Accounting Office and the DoDIG



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Review stock on hand for the MPS program and eliminate excesses by redistributing equipment and supplies.
C	Develop guidance for writing local procedures and publish guidance in NAVSUP P-437 for proper processing of Material Obligation Validations (MOV).
C	Establish central points of authority to implement the policies for management of aviation Government Furnished Material.
C	Review appropriateness of fixed allowance and where possible decrease inventory.
C	Establish the Marine Aviation Logistics Squadron (MALs) as responsible for Industrial Material Readiness Level (IMRL) management. Implement a Local Asset Management System (LAMS) to reduce the work load on the personnel assigned to MALs.
C	Establish a central activity to coordinate management of support equipment.
C	Emphasize compliance with all aspects of support equipment inventory management, reporting and requisitioning.
C	Establish controls to reduce unauthorized requisitions.
C	Require activities to use the Local Asset Management Systems (LAMS) for IMRL accountability.
C	Establish or validate retention limits at least annually for PWRM stock and make available to other Government agencies or dispose of PWRM stock in long supply.
C	Develop, plan and write procedures for performing quality assurance reviews of funded PPRs.
C	Conduct a complete and thorough inventory of all MPS warehouses and report all inventory losses.

- C Establish controls at each warehouse to include limiting access to warehouses, maintaining appropriate physical security over inventory.
- C Consolidate locations of similar items at the warehouses and correct location codes.
- C Direct retail activities to make follow-up status requests resulting from records reconciliation in accordance with MILSTRIP procedures.
- C Reduce and/or cancel requirement to procure certain vehicles in program years 1990 through 1994.
- C Establish internal controls for all allocation requests for noncombat Harpoon missile firings.
- C Revise contract to reflect stockage levels needed to support CT-39 aircraft based on demand history.
- C Establish controls necessary to ensure that authorized CT-39 stockage levels are not exceeded without review.
- C Establish training device standards and utilization goals for aviation, surface and subsurface training devices.
- C Study the possibility of consolidating major training device utilization and application data collection systems so the duplicate systems can be eliminated.
- C Issue guidance and procedures for conducting Training Effectiveness Evaluations on training systems.
- C Conduct a Navy-wide inventory of ground support equipment to establish an accurate baseline.
- C Develop the Contractor Aviation Material Management System (CAMMS) to process designated GFM transactions.

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Revise appropriate DON guidance to provide for appropriate visibility, accountability, control of GFM and establish procedures to prevent excess GFM from accumulating at contractor facilities.

- 12/91 Determine which stored items are needed by Maritime Prepositioning Ship (MPS) and can be economically shipped. Declare all other items excess to MPS needs.
- 06/92 Establish procedures to provide for appropriate visibility, accountability, and control of GFM in the possession of contractors.
- 06/92 Establish specific guidance to prevent excess GFM from accumulating at contractor facilities, including formulas for determining when items are excess, and establish requirements to regularly review contractor GFM to determine when GFM has become excess to contractor needs.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: All corrective actions will be certified by the responsible component(s) through the command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of June 30, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Reutilization/Disposal of Excess and/or Unneeded Government Property

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Excess Government-owned property at contractor locations was not screened and reutilized through the Contractor Inventory Redistribution System (CIRS). Not only is this storage estimated to cost DoD millions of dollars, but excess government owned property is not being reused to the maximum.

Component/Appropriation/Account Number: OSD/Operation and Maintenance

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Additional time required for functional testing of total electronic plant clearance systems.

Impact of Weakness on Operations: The DoDIG estimated that \$17.3 million of excess contractor inventory may not be recovered and reutilized by the DoD Supply System.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Developed PC software for an electronic plant clearance system.
C	Field level testing of system with selected contractors and contract administration offices.

- C DLA mainframe interface with GSA reutilization system.
- C DLA mainframe interface with DoD Inventory Control Points.

Planned Milestones (FY 1992):

Date:	Milestone:
09/92	Functional testing of total electronic plant clearance system with industry, DoD and GSA activities.
09/92	Completion of user manuals for contractors, plant clearance personnel and buying activities.
09/92	Full Deployment/Implementation of the system.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: The electronic plant clearance system will be tested for effectiveness.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Controlling Contractors' Access to the DoD Supply System

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Contractors who are supplied with Government Furnished Materiel (GFM) can under certain circumstances access the DoD Supply System. With a Department of Defense Activity Address Code (DODAAC), a contractor can initiate MILSTRIP requisitions which will allow the contractor to obtain parts from the DoD Supply System. The ability to access the DoD Supply System provides contractors with the opportunity to acquire parts which are not authorized by contracts. The potential for abuse exists.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army; Army Stock Fund; Army Procurement

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1989

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Army actions are dependent on several DoD mandated changes in material management which have slippage due to the complexity of the problem.

Impact of Weakness on Operations: Failure to correct this weakness would impair the Army's ability to protect government furnished supplies from fraud, waste and abuse. More specifically, contractors would continue to have the ability to access the DoD supply system and obtain supplies/parts which are not authorized by contract. Further, the Army would not have the ability to verify that supplies/parts authorized by contract are not in excess to contract requirements. Also, at contract termination, the Army would not be able to verify that unused supplies/parts were returned to the DoD supply system.

Source(s) Identifying Weakness: Internal Management Control Review; General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Five actions related to wholesale supply systems-- policy for management control activities, AR 725-50 revision for one DODAAC, AMC task force, making management plans, and data flow diagrams.
C	Revise AR 710-1 (Use of Assets in Long Supply) to comply with Federal Acquisition Regulation (FAR) disposal procedures.
C	Four actions from the Logistics Evaluation Agency study that integrates Management Control Activities in current retail structure and evaluates Major Commands' comments.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Revise automated systems regarding selection of Government Furnished Materiel/Contractor Furnished Materiel (GFM/CFM).
05/92	Finalize procedures and implement initial wholesale level capability.
05/92	Develop formal implementation plan. Task necessary retail systems and regulation changes to LEA and ensure that such changes are in sync.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
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None

Validation Process: Direct verification by the OSD task group (for actions to be accomplished by OSD), verification by MACOM functional staff (for actions to be accomplished by the MACOM and subordinate elements), and by the HQDA functional proponent (for actions to be accomplished by the functional proponent).

Note: This weakness is now a part of the broader Defense Management Report Decision (DMRD) 933, Accounting for Government Furnished Materiel. The management plan established to correct the material weakness will be incorporated into the plan being developed to implement the DMRD.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Carcass Tracking and Billing for Aviation Depot Level Repairables (AVDLRS)

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Programs and resources for carcass tracking and billing were not always managed and utilized effectively; many pertinent transactions were not processed in accordance with established procedures and regulations. Due to shortcomings in the programming and interfaces between systems, essential data were sometimes lost or misinterpreted. Also, controls were not always in place to detect lost or misinterpreted data. Some equipment losses were not real losses; losses were not investigated to establish liability with either transportation carriers, contractors, or the Navy. Erroneous billings, credits, and reversals were generated; discrepancy reports and follow-up inquiries were not handled correctly.

Component/Appropriation/Account Number: Navy/Navy Stock Fund, 17X4911

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1989

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): The first billing cycle, to obtain credit, will occur December 1991.

Impact of Weakness on Operations: Unless improved, the \$12.8 billion AVDLR carcass tracking system could result in unnecessary procurements, erroneous credits by the Navy Stock Fund, and deprive customers of the use of funds.

Source(s) Identifying Weakness: Naval Audit Service



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Identify and correct computer software problems to ensure proper recording of losses and establish adequate data processing and data output controls.
C	Establish data processing controls to record transshipment losses on financial records.
C	Provide guidance for investigating, surveying, and reconciling lost AVDLRs and establish Navy Aviation Supply Office coordinator.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Forward bills to customers for value of AVDLRS not turned in, determine liability for lost assets, and obtain credit if appropriate.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of December 31, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Excess Materials

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Problems with excess materials occurred in several situations and locations. Reviews of fixed allowance levels for repairable components in Operational Support Inventory were inadequate and contractor purchases were not limited to the authorized contractual stock levels. A lack of controls and noncompliance with the Automated Storage, Kitting, and Retrieval System (ASKARS) regulations resulted in routinely warehousing unrecorded excess aviation material. Also, material was ordered solely on the basis of safety level requirements without consideration of relative importance and mission essentiality. Forecasts of inventory requirements were frequently excessive and data used in computing excess on-order assets were inaccurate and incomplete. During the year, the scope expanded. Since the retail logistics support system for the TRIDENT PROGRAM had not been reevaluated during the past 10 years, excess material equal to three times the issue restriction quarterly resulted. The excesses were not reported to the Integrated Material Managers so inventories could be visible to others.

Component/Appropriation/Account Number: Navy/Navy Industrial Fund, 17X4912; Operation and Maintenance, Navy Reserve, 17 1806; Operation and Maintenance, Navy, 17 1804.

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Inadequate controls and noncompliance with procedures resulted in excess material valued at \$37.2 million.

Source(s) Identifying Weakness: Naval Audit Service, DoDIG and the General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Establish controls to ensure that authorized stocking levels are not exceeded and ordered in only necessary quantities.
C	Establish performance indicators to show the timeliness and cost effectiveness of termination decisions and require actions of unfavorable trends.
C	Assess necessity, propriety, adequacy and retention of Supply Support Requests documentation, and reasonableness and timeliness of responses to validation requests.
C	Recompute fixed allowance levels for repairable components when warranted.
C	Validate compliance with the Automated Storage, Kitting, and Retrieval System (ASKARS) and perform review of system records to ensure only material identified for reinstallation on aircraft scheduled for rework is retained.
C	Require the use of excess, on-order, or on-hand Government Furnished Material audits to the extent possible, identified on production contracts.
C	Establish procedures and controls for review of forecasted requirements submitted on Supply Support Requests.
C	Modify procedures so issue restriction quantities will not be multiplied by three.
C	Develop automated program to recompute allowance levels.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Return excess ASKARS material to either the supply system or Navy Industrial Fund (NIF) stores, as appropriate.

- 06/92      Base safety level requirements on the relative importance of the items rather than constrain acceptable stockout risks for certain items.
- 06/92      Use mission essentiality in safety level requirement determinations when this information is available.
- 06/92      Complete and implement the initiatives to enhance the Shipyard Management Information System (SYMIS), which is part of the Navy Industrial Improvement Program and include the Material Management subsystem.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of June 30, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Fixed Asset and Other Personal Property Accountability, Control, and Reporting

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: The accountability, control and reporting over fixed assets and other personal property are not sufficient to assure property is safeguarded. The controls to protect and accurately report the values of personal property to the general ledger accounts are insufficient to meet DoD property management standards. An effective accountability system is needed to control fixed assets and personal property and to ensure that procedures in the area of property accounting are established and maintained.

Component/Appropriation/Account Number: National Security Agency (NSA)

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1993

Reason for Change in Date(s): Actions to correct this weakness have been made a part of the Director's Total Quality Management (TQM) Program. Thus, there is a TQM Process Improvement Team initiative to review and revamp accountability for personal property which will result in recommendations to be implemented as a part of the correction process.

Impact of Weakness on Operations: Lost personal property impacts the Agency more at the financial level. In many cases, proper disposal documentation for lost personal property is not available. By law, the value of such property is established at its original acquisition cost, undepreciated. It is not possible to forecast a dollar level savings to be realized with correcting this weakness.

Source(s) Identifying Weakness: Other, Internal Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Developed and implemented a plant property responsible officer program via NSA/CSS Regulation Number 60-42.
C	Issued the <u>Handbook for NSA/CSS Plant Property Responsible Officers</u> to improve the system for controlling plant property.
C	Accounted for small computers through the plant property system.
C	Defined sensitive/pilferable property.
C	"Plant Property" redefined as "Personal Property."
C	Began Personal Property inventory of Telecommunications Organization.
C	Revised NSA/CSS Regulation No. 60-42 (replacement dated April 13, 1989) and transferred to TQM Process Improvement Team for further review.
C	Completed Personal Property Inventories of Operations and Research and Engineering Organizations.

Planned Milestones (FY 1992):

Date:	Milestone:
TBD	Implement recommendations resulting from Process Improvement Team study of Personal Property Accountability.
02/92	Complete Personal Property inventory of Telecommunications Organization.
03/92	Begin Personal Property inventory of Information Systems Security Organization.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
12/92	Complete Personal Property inventory of Information Systems Security Organization.

TBD        Phase-implement the sensitive/pilferable property program.

Validation Process: The effectiveness of any improvements in Personal Property Inventory control measures will initially manifest itself through the quantity and quality of equipment status information flowing to the Custodial Property Officers and into the Personal Equipment Accounting System data base. Future inventories will serve to verify the accuracy of the information in the data base, and the effectiveness of the property control measures.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Inaccurate Controls to Ensure Receipt of In Transit Supply Shipments

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Although control procedures exist for monitoring in-transit shipments, there are no assurances that all such shipments are received. Items costing about \$763 million were in transit between depots as of the end of 1985. Of this amount, about \$181 million was shown as in transit for more than six months. After six months, it is unlikely that confirmation of receipt will occur. Because of management emphasis on this area, the scope of this weakness subsequently was expanded to address additional problems discovered.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17 1804; Shipbuilding Conversion, Navy, 17 1611; Other Procurement, Navy, 17 1810; and Navy Stock Fund, 17 4911.

Pace of Corrective Action

Year Identified: FY 1986

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Completion delayed due to software release update.

Impact of Weakness on Operations: If not corrected, inadequate controls over the receipt of material could result in substantial loss of millions of dollars, as well as inaccurate inventory records.

Source(s) Identifying Weakness: Audit and management control reviews.



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Establish procedures to strengthen controls over in-transit supply inventories as part of the Resystemization of an ADP process at Uniform Inventory Control Points.
C	Procure, write and/or test all software systems involved in Resystemization.
C	Review existing controls over MIT in conjunction with the Navy Industrial Fund Improvement Project.

Planned Milestones (FY 1992):

Date:	Milestone:
06/92	Incorporate valid requirements and controls in the Shipyard Management Information System (SYMIS).

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Unserviceable propulsion batteries with recoverable silver valued at \$6 million were being held needlessly in storage because of improper recording procedures. Coding errors also lead to the disposal of batteries prior to reclaiming silver. In addition, inadequate controls over sonobuoy inventories resulted in considerable amounts of unrecorded assets, failure to investigate losses by accounting, and improper stock rotation procedures and failure to claim silver.

Component/Appropriation/Account Number: Navy/Other Procurement, Navy, 17X1810

Pace of Corrective Action

Year Identified: FY 1986

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1993

Reason for Change in Date(s): Elimination of funding in the Receipt, Storage, Segregation and Issue of Ammunition budget for FY 1992 and outyears.

Impact of Weakness on Operations: Navy's ability to properly determine sonobuoy requirements was impaired which could lead to unnecessary procurements or shortages.

Source(s) Identifying Weakness: Navy Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Review and evaluate battery inventory to properly identify and code excess and unserviceable batteries.
C	Screen excess batteries for Foreign Military Sales requirements and direct shipment of excess assets to Defense Property Disposal Office, as appropriate.
C	Establish a uniform reporting system for inventorying sonobuoys.
C	Implement a Fleet Optical Scanning Ammunition Marking System (FOSAMS) and train appropriate personnel.

Planned Milestones (FY 1992):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
09/93	Complete a physical inventory of all sonobuoys and provide full visibility of assets in the Conventional Ammunition Integrated Management System (CAIMS).

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through inspections and monitoring of the Conventional Ammunition Integrated Management System. Certification will commence upon completion of final milestone of corrective action which has an estimated completion date of September 30, 1993.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Special Tooling/Special Test Equipment (ST/STE) Management

Functional Category: Functional Management

Administrative/Program Activity: Property and Inventory Management

Description of Material Weakness: Visibility of ST/STE was inadequate. Air Logistics Center (ALC) personnel were unable to process special tooling data in a timely manner for input to the automated ST/STE management system (CO17).

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Pace of Corrective Action

Year Identified: FY 1986

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Failure to properly process special tooling data in a timely manner could result in premature disposal of ST/STE, thereby increasing Air Force replacement costs.

Source(s) Identifying Weakness: Air Force Audit Agency

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Determination of planned approach and establishment of project completion dates.
C	Load ST/STE weapons systems data into the CO17 management information system.

Planned Milestones (FY 1992):

Date: Milestone:

09/92 Load ST/STE weapons systems data into the C017  
management information system.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

09/93 Load ST/STE weapons systems data into the C017  
management information system.

Validation Process: Program application of statistical sampling  
techniques will verify accuracy of data base.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Inappropriate Offloading of Contract Requirements

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: Satisfaction of supply and service requirements is accomplished by obtaining contracting support from other Federal Agencies rather than from assigned contracting offices. Requiring activities search out existing contracts let by other agencies as vehicles for expedient obligation of funds and award of contracts, thus circumventing established controls.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Offloading supply and service requirements significantly heightens the potential for abuse and loss of management control and accountability. "Shopping around" for contracting support is contrary to published policy, regulations and statutes; burdens Army financial resources with non-value added middle-man fees imposed by servicing agencies; can result in higher contract costs under non-competitive buys; may improperly circumvent year-end spending policies and controls; and potentially lead to loss of expiring funds resulting in mission shortfalls.

Source(s) Identifying Weakness: U. S. Army Audit Agency; Inspectors General, DoD and Army; Army Procurement Management Review Teams

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C ASA(RDA) published and widely circulated policy prohibiting offloading practices.

Planned Milestones (FY 1992):

Date: Milestone:

03/92 The Army Chief of Staff will be requested to issue instructions to requirements managers to ensure that legal counsel and assigned contracting offices review all MIPRs (or other Advice of Obligation Authority/funds transfers) to non-DOD agencies.

03/92 The ASA(FM) will be requested to issue similar instructions to resource managers.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Management reviews by Assistant Secretary of the Army (Research, Development and Acquisition).

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Business Practices with Universities

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: Indirect cost negotiation practices for federally-funded research grants were not in full compliance with existing policies and regulations. Timely audit reports were not being obtained. Management did not seek legal and audit inputs on advance agreements. In addition, adequate supporting documentation (including business clearance memoranda) were not sufficiently detailed to justify business decisions. While the source identified these deficiencies at only one University, Navy is taking corrective actions to improve controls over federally-funded research grants at all participating colleges and universities.

Component/Appropriation/Account Number: Navy/Research, Development, Test and Evaluation, Navy, 17X1319

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The impact is the potential overpayment of indirect costs.

Source(s) Identifying Weakness: Navy IG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Notification to field offices on need to comply with DON procurement policies and regulations.



- C      Develop plan for comprehensive Business Management Review.
- C      Issue new comprehensive practices/procedures Manual on Negotiation of Indirect Costs.
- C      Provide nationwide training on Negotiation of Indirect Cost Rates and implementation of new Indirect Cost Manual.

lanned Milestones (FY 1992):

Date:	Milestone:
12/91	Conduct study of all Memorandums of Understanding.
12/91	Develop Standard Operating Procedures on Training and Supervision of Resident Representatives.

lanned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Methodologies to certify the effectiveness of the corrective actions will be on-going and include: review and prior approval of all indirect cost rate negotiations, on-site procurement management reviews of field offices and a peer review assessment during annual business management review. Administrative inspections of field operations is scheduled in FY 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Spare Parts Breakout Program - Procedures

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: DoD has a mandate through the Spare Parts Breakout Program to review the purchase of spare parts, and select those technically and economically suitable for breakout to other sources by overcoming or removing constraints to breakout identified through the Full and Limited screening process (technical review). Successful breakout reduces cost through the use of competitive procurement methods, while maintaining the integrity of the systems and equipment in which the parts are to be used. There is a need for a DLA "breakout regulation." This regulation would provide guidance to the hardware Defense Supply Centers (DSCs) to preclude inconsistencies and provide standard procedures for DSC breakout operations. Corrective action is needed to standardize the Breakout Program at the DSCs. Additionally, a System Change Request to the Contracting Technical Data File (CTDF) is needed to automate the break out coding/tracking process.

Component/Appropriation/Account Number: Defense Logistics Agency/Defense Business Operations Fund, 97x4930

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The weaknesses identified above can lead to inconsistent implementation of the Breakout Program at the Defense Supply Centers, including the reporting of distorted savings. The lack of guidance may cause incorrect AMC/AMSC coding and missed breakout opportunities, leading to the procurement of parts at inflated prices.

Source(s) Identifying Weakness: Agency memorandum and audit

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Establish DLA HQ Breakout Program Manager's position.

Planned Milestones (FY 1992):

Date: Milestone:

02/92 Draft standard procedures for calculating breakout savings.

02/92 Complete system change request USLOH1100.

06/92 Finalize standard procedures for calculating breakout savings.

09/92 Publish DLA Regulation 4185.18, DLA Spare Parts Breakout Program, to include standard procedures for calculating breakout savings.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Physical receipt of required information from the DSCs and evidence of conformance to DLA-published guidance.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Spare Parts Breakout Program Provisioning

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: The ability to competitively buy spares must be considered early in a weapon system acquisition. Full and open competition is the preferred result of breakout screening. Responsibility for performing initial breakout and the corresponding assignment of the Acquisition Method Code/Acquisition Method Suffix Code (AMC/AMSC) lies with the DoD Component introducing the equipment or system for which the parts are needed in the inventory. During the provisioning of systems/equipment, DLA is designated the integrated material manager for most consumable items. Many of these items do not have an assigned AMC/AMSC at this time, indicating there was no screening performed by the appropriate DoD Component during systems/equipment development and production. It appears there is a need for DoD Components to comply with the intent of the Breakout Program to review items as early as possible.

Component/Appropriation/Account Number: Defense Logistics Agency/DoD Components

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The weakness identified above can lead to noncompetitive procurements which result in higher acquisition costs.

Source(s) Identifying Weakness: Internal Management Control Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

03/92 Review Light Armor Vehicle (LAV) sole source items assigned to DLA.

07/92 Assess the impact of not reviewing LAV items early on.

09/92 Draft report of findings to appropriate DoD Components.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

11/92 Final report of findings to appropriate DoD Components.

Validation Process: Increase in established AMC/AMSC submitted through provisioning process.

**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES**

Title of Material Weakness: Requirements Determination for Aircraft Acquisitions

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: Inadequate internal controls prevented the Navy from using the best available data and techniques to develop accurate acquisition estimates. Consequently, Navy overstated procurement and flight hour requirements for several aircraft including advanced capability aircraft, training aircraft and flight hours. Navy's guidance on updating and validating planning factors needs revision. Use of inaccurate planning/usage data hampered Navy's ability to correctly forecast requirements. Improved controls are needed to improve the accuracy of major acquisition baseline calculations.

Component/Appropriation/Account Number: Navy/Aircraft Procurement Navy, 17X1506

**Pace of Corrective Action**

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Use of inaccurate planning factors causes overstatements in budgetary requirements. A program's overstated budget request can cause other needed programs to go unfunded. Cancellation of excess requirements will result in a potential cost avoidance of \$2.324 billion.

Source(s) Identifying Weakness: Naval Audit Service and General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Cancel the FY 1992 POM planned procurement of the EA-6B and consider options to eliminate the remainder of the planned buy.

C Reduce planned procurement of T-44A aircraft by five.

Planned Milestones (FY 1992):

Date: Milestone:

12/91 Develop guidance for reviewing and validating planning factors.

12/91 Adjust current programmed T-44A flying hours to reflect actual requirements.

12/91 Obtain independent validation of aircraft requirements data when developing major acquisition baselines.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

09/93 Reevaluate quantity requirements of the T-45A upon completion of Initial Operational Capability. Based on analysis, make appropriate revision to the outyear production of the T-45A.

Validation Process: Corrective actions will be certified by the responsible DON component through follow-up reviews, program reviews and audits. Verification will commence upon completion of the final milestone of corrective action currently estimated for completion on September 30, 1993.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Internal Management Control Program Implementation within Special Access Programs (SAPs)

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: A DoDIG audit found that the Navy had not implemented the Federal Manager's Financial Integrity Act (FMFIA) in a specific Special Access Program. Implementation of the FMFIA needs to be verified across Navy Special Access Programs in general.

Component/Appropriation/Account Number: Navy/Research, Development, Test and Evaluation (RDT&E), Navy, Various; RDT&E, Navy, 17X1319; Aircraft Procurement Navy, 17X1506; and Operations and Maintenance, Navy, 17X1804.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Without a formal Management Control Program "Risk Assessment", there is a potential for inadequate, ineffective, or omitted management controls.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
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C	Implement the Management Control Program in the Special Access Program identified by the DoDIG.
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Planned Milestones (FY 1992):

Date: Milestone:

11/91 Initiate a survey and fact finding review to ascertain the nature and extent of FMFIA implementation within all Navy Special Access Programs. Upon receipt of survey results, develop a plan of corrective actions and milestones, if required.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Validation will be continuous until full coverage is confirmed. Follow-up actions, if required, will be certified by the responsible DON component through Management Control certification and reporting.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Delinquency in Processing Contract Reports

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: DNA's report cycle is designed to produce a published contract deliverable report in 5 to 11 months from the date of receipt of a draft deliverable from a contractor. DNA has five major processes and five processing centers involved in getting a completed report in the hands of the user. The five major processes are: Technical Review, Report Revision, Internal/External Review, Contractor Preparation of Camera Ready Copy, and Printing the Report. Failure to meet the established time standard in any of the processes results in a delay in publication of the final report, since a sequential process is used. The Reports Status List (RSL), a summary document, is used to inform Agency managers of the status of all deliverables in the Reports Cycle. Action taken when a deliverable is reported as late is not standardized. The process as it stands involves many responsible offices and processes which could lead to delays.

Component/Appropriation/Account Number: Defense Nuclear Agency/DNA Research, Development, Test, and Evaluation, 6.2

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Certification not considered complete.

Impact of Weakness on Operations: DNA's responsiveness to customer needs will not be satisfied.

Source(s) Identifying Weakness: Internal Management Control Review of FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Form a Process Action Team of responsible office(s) and others.
C	Determine the office(s) responsible for ensuring timely reports.
C	Develop additional and more comprehensive procedures to ensure timely contract reports.
C	Improve the focus of training for contract managers.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Publish procedures.
12/91	Add a critical element and performance standard to performance appraisal or annual effectiveness report.
03/92	Certification

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: An abbreviated (follow-up) IMCR on this topic will be completed by March 31, 1992. The DNA IG is the IMC Chairman and by DNA Instruction, is responsible for directing the conduct of an AIMCR.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Task Order Contracting

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: There is a lack of specific review and oversight procedures to cover task order contracting. This lack of higher level guidance has resulted in inconsistent and faulty application of contracting regulations and policy.

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force 57\*3400; Research, Development, Test and Evaluation, Air Force, 57\*3600.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Delay caused by change in Federal Acquisition Regulations.

Impact of Weakness on Operations: Continuing violations of established contracting policy on task order contracts.

Source(s) Identifying Weakness: Air Force Audit Agency

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Establish agency action team to develop and implement corrective action.

C Develop policy on task order contracting.

Planned Milestones (FY 1992):

Date: Milestone:

12/91 Issue policy guidance.

03/92      Publish change to Air Force Acquisition Supplement  
(AFFARS) .

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: Compliance will be verified by contract  
review committee prior to issuance of task order contracts.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Contracting via Interagency Agreements

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: Current regulations require a contracting officer determination that interagency transfer is the appropriate method of contracting. Many Navy program officials are unaware of this and other requirements governing interagency agreements. As a result, adequate competition has not been obtained, obligations have not been accurately recorded in the DoD Procurement Action Report (DD 350) system, and numerous other irregularities have occurred.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804; Other Procurement, Navy, 17X1810; Weapons Procurement, Navy, 17X1507; Shipbuilding Conversion, Navy, 17X1611; and Aircraft Procurement, Navy, 17X1506.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): A separate review of ASN (RDA) Policy Initiatives completed September 1991 specifically included interagency acquisitions. This review was conducted to determine whether additional guidance was necessary. Continued deficiencies in interagency acquisition confirmed the need for additional guidance which will be issued NLT January 30, 1992.

Impact of Weakness on Operations: Contracting via interagency agreements can result in by-passing documentation and competition requirements, and inaccurate recording of obligations.

Source(s) Identifying Weakness: Management reviews

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

- C Issue an alert to all program officials and contracting officers advising them of the need to ensure compliance with statutory and regulatory requirements governing interagency acquisitions.
- C Designate the implementation of DoD/DON policy on interagency transfers a special interest item for at least one Procurement Management Review (PMR) cycle.

Planned Milestones (FY 1992):

Date: Milestone:

- 01/92 Issue SECNAV instruction on interagency acquisition, requiring activities to establish appropriate financial and administrative controls.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Include as special interest item for at least one Procurement Management Review cycle. Certification will commence upon completion of final milestone of corrective action which has an estimated completion date of Jan. 30, 1992

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Nonconforming Material in DoD Supply System

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: DoD and DLA policies and procedures allowed unacceptable quantities of nonconforming material into the DoD Supply System. The DoD quality assurance system needed improvements to ensure that parts procured meet contract specifications.

Component/Appropriation/Account Number: Defense Logistics Agency/Operations and Maintenance, DLA, 9700100.51.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: If allowed to continue, unacceptable quantities of nonconforming material will continue to be added to the DoD Supply System.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Develop approach to institutionalize TQM.
C	Implement Memorandum of Agreement approach to reduce acceptance of nonconformance by Material Review Board.
C	Revise DLAR 4155.24, Reporting of Product Quality, across Component lines to enhance standardization



and measurement of Product Quality Deficiency Report System.

- C Improve Quality Assurance technical training.
- C Implement In-plant Quality Evaluation Program to include prime control of subcontractors.
- C Use laboratory testing to verify quality of spare parts.
- C Automate In-plant Quality Evaluation records.

Planned Milestones (FY 1992):

Date: Milestone:

06/92 Establish DLA organic laboratories.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

12/92 Establish access capability to the Automated Vendor Rating System to provide contractor quality performance for users.

Validation Process: Corrective action will be certified as each milestone is accomplished, using measurement criteria integrated into each of the Action Plan's 26 objectives. The IG, DoD can participate in the verification by conducting its planned audit of the Action Plan during FY 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Major Systems Acquisition

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: The Cost Analysis Improvement Group (CAIG), under ASD(PA&E) leadership, is responsible for reviewing Independent Cost Estimates for Major Systems and bringing any issues concerning the completeness or reasonableness of life cycle cost estimates to the attention of the Defense Acquisition Board (DAB). The DoD IG found that improvements were needed in providing guidance to the Services on what type and amount of costs could be "passed through" from program office estimates. Improvements were also needed in the Services' independent cost estimate review process to prohibit revisions resulting from high-level reviews or from the effect of Service policy on the estimate. Also improvements were needed to ensure that independent cost estimates included all life-cycle cost elements regardless of funding source or management control, and improvements were needed in estimate documentation and reconciliation.

Component/Appropriation/Account Number: OSD/All Service Research and Development, Procurement, Operation and Maintenance and Military Construction appropriations.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): PA&E was directed, in conformance with the policies established for the scope of the guidance documents for major system acquisitions, to include most of the substantive provisions of DoDD 5000.4 in the revisions of DoDI 5000.2 and DoDI 5000.2-M, which moved the targeted correction date from FY 1990 to FY 1991. Responses to all but one of the recommendations made by the IG, DoD were included in DoDI 5000.2 and DoDI 5000.2-M. These instructions were signed in June 1991, which was the targeted correction date in the prior period. The

remaining recommendation of the IG, DoD is contained in the draft revision of DoDD 5000.4 circulated in June 1991. The DoDIG coordinated on this draft, but DoD General Counsel, and the Director, OUSD(A)/AP&PI have not concurred with the draft.

Impact of Weakness on Operations: Currently there are none, as the CAIG Chairman has adopted the one recommendation of the DoD IG (see above) that has yet to be codified in a DoDD or DoDI.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

**Completed Milestones:**

Date: Milestone:

C Issued Guidance to Military Departments.

C Incorporated in DoD Instruction 5000.2 and DoD Instruction 5000.2-M responses to all but one of the DoD IG's recommendations.

C Revision of DoD Directive 5000.4 circulated for comment.

**Planned Milestones (FY 1992):**

Date: Milestone:

01/92 Issue revised DoD Directive 5000.4.

**Planned Milestones (Beyond FY 1992):**

Date: Milestone:

None

Validation Process: The Department of Defense Inspector General's coordination of DoD Instruction 5000.2, DoD Instruction 5000.2-M, and DoD Directive 5000.4 will ensure that appropriate responses have been made to all of their recommendations.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: In-Process Reviews of Nonmajor Systems

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: The effectiveness of in-process reviews of nonmajor systems has been hampered by not consistently meeting documentation requirements. In some cases, programs are being managed under incorrect ACAT designation and ACAT data base inaccuracies. A nonmajor system project, a downsized Demand Assigned Multiple Access (Mini-DAMA) satellite, with an urgent fleet need has had development delays due to programmatic changes and funding deferrals that resulted from non-adherence to research, development and acquisition procedures for establishing program definition, need, and resource commitments. In FY 1991, the scope of this weakness expanded. Portions of total systems requirements are being fielded under Low Rate Initial Production (LRIP) approvals prior to successful completion of operational test and evaluation. Heavy use of LRIP contributes to the acquisition and fielding of large portions of total system requirements before full rate production approvals and before system deficiencies were corrected. Proper documentation for operational test and evaluation test results were not being adequately reported, stored and cross referenced, and safeguards were inadequate to prevent conflict of interest in contract award for operational testing for nonmajor systems. These conditions were caused by noncompliance with regulations, insufficient and conflicting regulating guidance, and inadequate oversight of the test and evaluation process.

Component/Appropriation/Account Number: Navy/Research, Development, Test and Evaluation, Navy, 17X1319; Weapon Procurement, Navy, 17X1507; Other Procurement, Navy, 17X1810; Aircraft Procurement, Navy, 17X1506.

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1989

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Department of the Navy can revise its guidance after review and implementation of DoD Directives. Scope of weakness expanded to include additional milestones of corrective action.

Impact of Weakness on Operations: Inadequate in-process reviews of nonmajor systems can affect evaluations and recommendations used in the program decision processes. Purchasing systems prior to successful completion of operational testing is contrary to Navy policy and circumvents controls in the decision process for approving full rate production. Approximately 60 percent of RDT&E funds and procurement funds are used for nonmajor systems.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Review and establish plan of action and milestones for Mini-DAMA.
C	Increase monitoring of compliance with documentation requirements.
C	Apply the provisions of Public Law 101-189 requiring quantification of LRIP at Milestone II to non-major systems.
C	Require that any increase in LRIP quantities initially approved at Milestone II be approved by the next higher decision authority.
C	Issue policy to incorporate conflict of interest provision on contractor involvement in operational testing for non-major systems.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Require that LRIP documentation provide the rationale for approvals that authorize more than a single year's buy.
12/91	Provide appropriate procedures and controls for processing and approving LRIP decisions.
12/91	Specify what detailed data must be retained to support operational test and evaluation reports and the retention period for each type of data.

12/91      Revise guidance to incorporate procedures for changing ACAT designations when appropriate and provide update and verification procedures for centralized data base of acquisition projects.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: An internal management review will commence upon completion of the final milestone of corrective action currently estimated for completion on December 31, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Military Manpower/Hardware  
Integration (HARDMAN) Program

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: The Navy has not always effectively integrated manpower, personnel and training resource requirements and constraints into design decisions for new weapon systems. Because the Military Manpower/Hardware Integration (HARDMAN) program has not been fully developed, and thus has experienced limited use, new weapon systems being designed may not make efficient use of personnel or be staffed with personnel having appropriate skills.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17 1804; and Military Personnel, Navy, 17 1453.

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Because of HARDMAN's limited use and incomplete development, DON cannot be sure it has designed new weapon systems that use people efficiently and that can be staffed with sufficient numbers of people with appropriate skills. Early manpower planning problems that existed prior to the introduction of the HARDMAN program still remain unsolved.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

05/92 Revise current instructions and establish  
administrative controls to ensure HARDMAN use.

05/92 Establish a methodology for projecting availability  
of billets, personnel, and training requirements.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Planned certification methodology is either  
a management control review or an on-site audit verification  
review. Certification will commence upon completion of the  
final milestone of corrective action currently estimated for  
completion on May 31, 1992.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: New Research Acquisition Program Initiations

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: Some new acquisition program research and development initiations faced cancellation or deferral because objectives and requirements were occasionally poorly defined, threat definitions were not always specific and supported by validated intelligence studies, and program oversight was lacking. Program initiation guidelines require revision to improve the development of documentation needed to support budget requests for RDT&E funding.

Component/Appropriation/Account Number: Navy/Research, Development, Test and Evaluation, 17X1319

Pace of Corrective Action

Year Identified: FY 1987

Original Targeted Correction Date: FY 1988

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Department of the Navy can revise its guidance pending implementation of Department of Defense directives.

Impact of Weakness on Operations: Some new acquisition program research and development initiatives may be cancelled due to inadequately defined objectives and requirements. This lack of internal controls resulted in inadequate documentation to support budget requests for RDT&E funding for these new program initiatives.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Complete a staffing and workload analysis to identify resources needed for effective oversight of RDT&E acquisitions and develop related budget requests.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Revise program guidance to incorporate procedures and processes needed to support new acquisition program initiatives.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through an internal management review. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of December 31, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Duplicate Payments

Functional Category: Functional Management

Administrative/Program Activity: Procurement

Description of Material Weakness: The payment system used by the Defense Finance and Accounting Service (DFAS) has the potential for processing duplicate and erroneous payments.

Component/Appropriation/Account Number: Defense Logistics Agency/

Pace of Corrective Action

Year Identified: FY 1985

Original Targeted Correction Date: FY 1988

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Requires redesigning the entire contract payment and reporting process used by DFAS. Duplicate payments cause extensive research time in correcting erroneous payments, leading to a negative public perception of the government payment process.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

- |   |  |
|---|--|
| C | Notify Finance Centers of problem and recommend interim corrective measures. |
| C | Determine if interim programming can be accomplished.                        |
| C | Reprogram current system for interim actions.                                |

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Conduct functional test of revised system.
10/91	Conduct initial operating test.
02/92	Implement revised system of Contract Administrative Services.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Review and Approval of Navy Information Systems

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Navy activities that were to benefit from the use of information systems did not use quantifiable life-cycle benefits when preparing budget estimate submissions. Quantifiable life-cycle benefits are identified by project managers in economic analyses. Because benefits were not included in the budget process, the information systems users' budget estimate submissions were higher than justified by the economic analyses. Consequently, Navy may not realize the full economic benefit from the dollars spent on information systems development.

Component/Appropriation/Account Number: Navy/Other Procurement Navy, 17 1810; Operations and Maintenance, Navy, 17 1804.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Savings realized from implementation of automated information systems (AIS) may not be understood or applied to reduce budget estimates. Potential for AIS approval authorities to make decisions based on erroneous information can have substantial financial consequences.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

- 05/92 Revise guidance to ensure that results of independent reviews, tests, and evaluations are used when making major milestone decisions on development of automated information systems.
- 05/92 Require Navy activities to use economic analyses to adjust budget estimate submissions at the earliest opportunity in the budget and Program Objectives Memorandum process once an information system has achieved Milestone III approval.
- 09/92 Issue Functional Economic Analysis Guidance.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Milestones expected to be completed September 30, 1992. Once completed, internal assessment will begin. Audit and inspection organizations will be consulted on best methods of verifying the effectiveness of corrective actions.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Small Computer Management

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Small computer hardware and software are not being managed effectively and inventory records are inaccurate.

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Mismanagement of small computer equipment could lead to loss or misuse of government resources; unauthorized duplication and use of copyrighted software could result in financial liability to the Air Force.

Source(s) Identifying Weakness: Internal Management Review and AFMA Audits

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Direct accomplishment of command-wide inventory.

Planned Milestones (FY 1992):

Date: Milestone:

01/92 Complete physical inventory.

01/92 Rework custodian and user education programs to emphasize proper equipment accountability.

04/92 Identify small computer management as an IG special interest item for inspection.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Periodic reconciliation of inventory with accountability records and IG inspections.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Unauthorized Software

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: A survey at one DLA field activity revealed installed unauthorized, copyrighted software in use. More importantly, it has been determined that other unauthorized software is the greatest source for introducing viruses. The software loaded on the hard drives of 38 personal computers (PCs) was analyzed. Of the 38 PCs, 15 were found to have unauthorized software installed on the hard drives. The problem probably exists not only within DLA, but throughout DoD.

Component/Appropriation/Account Number: Defense Logistics  
Agency/Defense Business Operations Fund, 97X4930

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1994

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Since using unauthorized software is the greatest source for introducing viruses, the objective is to ensure that only authorized software is installed on DLA PCs.

Source(s) Identifying Weakness: Other -- survey

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date:	Milestone:
11/91	Survey PLFAs to determine extent of problem.
12/91	Conduct cost/benefit analysis to determine if further action is feasible. Data will also be used for IMC Cost/Benefit Submission form.
01/92	Obtain DLA-G ruling to peruse DLA-owned PCs, without user permission, for unauthorized software.
02/92	Obtain audit software program.
04/92	Develop procedure for analysis of audit results.
05/92	PLFA Information System Security Officers (ISSOs) develop a schedule for random reviews.
08/92	Develop procedures for identification, removal, and follow-up review of unauthorized software.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
12/92	PLFA ISSOs train Terminal Area Security Officers (TASOs) in use of software.
03/93	Conduct full-scale Agency-wide audit.
04/93	Prepare summary report.
07/93	Remove or arrange payment for all unauthorized software.
09/93	Through DLA-K, establish adverse personnel actions to penalize employees who continue to bring unauthorized software into DLA.
10/93	Include prohibition of unauthorized software use in ADP security training program for DLA personnel.
11/93	Implement ongoing control program (periodic PC checks).

Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Security of Dial-Up Modem Pool

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Several field activities use dial-up modem pools which are serviced by 800 WATS toll free telephone numbers. These 800 numbers are easily obtained, which, in effect, allows for the possibility of unauthorized users having access to all DCMDW's data bases.

Component/Appropriation/Account Number: Defense Logistics Agency/Operation and Maintenance, 97-0100.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The possibility exists for an unauthorized user to be able to penetrate the data. That is why this weakness is aimed at placing a degree of security on modem pools.

Source(s) Identifying Weakness: A review of the current operation of dial-in network in Los Angeles.

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

12/91 Survey all field activities to determine extent of problem for security of dial-up modems.

- 02/92      Survey industry for information on modem pools.
- 04/92      Based on information gathered, determine best method of security.
- 05/92      Identify costs/benefits associated with correcting IMC material weakness.
- 08/92      Secure funding for proposed method.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

- 05/93      Acquire and deploy protection system.

Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Security of Unclassified But Sensitive Information on Networks Used by DLA, But Operated/Owned by Contractors

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Remote DLA organizations located in contractor facilities often maintain and transmit sensitive information over contractor-owned and monitored networks. Information may consist of pricing for contract negotiations, quality assurance specifications, and passwords for access to mainframe data bases. Due to the location and ownership of the networks over which the data is transmitted, they are exposed to compromise.

Component/Appropriation/Account Number: Defense Logistics Agency/Operation and Maintenance, 97-0100

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Allowing sensitive information to be processed and transmitted over contractor-owned and monitored networks could potentially compromise security.

Source(s) Identifying Weakness: A review of the current operation at Los Angeles Contract Management District.

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date:	Milestone:
07/92	Conduct treat/vulnerability assessment of contractor networks used by DLA.
08/92	Survey industry for information on potential security countermeasures.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
10/92	Conduct cost/benefit analysis to determine feasibility of further action and determine action is feasible.
11/92	Present results of study to key personnel.
12/92	If feasible, develop specifications for acquisition of encryption devices.
02/93	Acquire encryption devices.
09/93	Implement/install encryption devices.

Validation Process: Physical verification procedures will be used to certify effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Army Information Architecture

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Army had not defined a basic frame of reference for identifying, integrating, validating and prioritizing information management initiatives by major commands (MACOMs). This basic architecture is essential to achieving compatible and interoperable information systems among all Army components. Also needed was a centralized control process for managing related MACOM initiatives.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1993

Reason for Change in Date(s): The original milestone was based on a requirement that the Army major commands develop the Capstone Army Information Model and the Data and Functional Architectures. The HQDA functional staff will be developing these requirements rather than the Army major commands. The major commands will submit the Geographic/Technical Architectures. As a result of this change in methodology, the milestones have slipped. Since the mid-year review, a more comprehensive plan was established which slipped completion date to 31 December 1992.

Impact of Weakness on Operations: If this weakness is not corrected information systems cannot be managed to ensure integration, sharing, standardization, interoperability, timeliness and validity.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Request Architecture Products status.

C Develop Architecture Products evaluation criteria.

Planned Milestones (FY 1992):

Date: Milestone:

03/92 Revise architecture methodology.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

12/92 Visit all MACOMs to review business process descriptions and establish the linkage to the CAPSTONE information business process.

12/92 Integrate the 10 most critical automated systems from all MACOMs into a "high level" geographic/technical architecture.

Validation Process: Managerial assessment validated by audit/inspection.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Defense Communications Systems Management Information Systems (DCS/MIS)

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Many problems exist with DCS management processes and information systems. This includes an inability to perform periodic review and revalidate circuits as well as inadequate control of communication and network resources. Data analysis and reconciliation is extremely difficult. These problems stem from a lack of accurate and readily available data, numerous separate MISs, not being up-to-date with current technology as well as organizational and procedural problems.

Component/Appropriation/Account Number: Defense Information Systems Agency/Operations and Maintenance, Defense Agencies, 970100; Defense Industrial Fund, 97X4962.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The DCS represents the common user long-haul communications trunks, circuits and equipment of the Department of Defense. These trunks, circuits and equipment cost DoD approximately \$600 million annually. The system is complex and involves both leased and purchased assets and even small actions often represent significant expenditures. Thus, misuse and inefficiencies result in large scale waste of resources.

Source(s) Identifying Weakness: Internal Management Control Review and the DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Establish corrective plan.

Planned Milestones (FY 1992):

Date:	Milestone:
07/92	Establish standard database elements and responsibilities for data maintenance and inventory.
07/92	Prepare statement of requirement including recommendations for improvement.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
01/93	Prepare operations concept.
10/93	Establish database of circuit/services assets.
11/93	Establish comprehensive inventory of communications requirements.
05/96	Provide integrated/interoperable database environment.
09/96	Post implementation testing to confirm effectiveness.

Validation Process: The following actions will be taken: examine the entire service provisioning process and make recommendations for improvement as necessary, develop a concept of operations to support the process, conduct a technology assessment, determine data element standards and establish a central data dictionary. Also review current information in data bases for accuracy and modify fragmented DISA data bases to ensure interoperability.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: ADP Management

Functional Category: Functional Management

Administrative/Program Activity: ADP/ADP Security

Description of Material Weakness: Duplication, incompatibility and increased expense associated with the design, development, and operation and maintenance of Navy information systems currently exists. For example, efforts continue to be directed at upgrading and building new computer centers, and procuring ADP hardware and software with little consideration to consolidation into existing computer centers. Policy and procedures for the development, exchange, release and reporting of custom software have not been implemented fully. The software exchange and reporting process is not comprehensive and its effectiveness is questionable. Stronger controls in this area offers opportunities for economies and efficiencies. Navy's Stock Point ADP Replacement (SPAR) is a case in point. By fully exploring alternatives for SPAR, \$95.8 million has been removed from the ADP Modernization Program, and labor cost can be reduced by \$200 million from FY 1990 to FY 1994 and over \$100 million per year thereafter.

Component/Appropriation/Account Number: Navy/Navy Industrial Fund, 17X4912; Operation and Maintenance, Navy, 17X1804; Other Procurement, Navy, 17X1810.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Reorganization of Information Resources Management in the Navy has created a delay in the anticipated completion of the remaining corrective actions.

Impact of Weakness on Operations: Duplication, incompatibility and increased expense associated with the design, development, and operation and maintenance of DON information systems currently exists. Prior to full analysis of alternatives, Navy was not ensured of pursuing the most cost-effective approach for SPAR implementation.

Source(s) Identifying Weakness: Internal Management Control Review, General Accounting Office and the Navy IG.

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Supplement DoD Instruction 7920.4, Baselineing of Automated Information Systems.
C	Institute quarterly reporting of Program status for major DON AISS which are special interest projects or systems reviewed by MAISRC.
C	Issue SECNAVINST 5231.3A on DON ISEB for reviewing Information Systems (IS) projects.
C	Study implementation alternatives for the SPAR system, including an analysis of estimated hardware, telecommunications and operating costs associated with various host/satellite configurations.
C	Present study results to the MAISRC prior to requesting approval for SPAR implementation.
C	Establish policy which considers the consolidation of computer centers early in the Life Cycle Management (LCM) process of ADP programs.
C	Include consolidation of ADP functions in the follow-up National Academy of Sciences study of Navy computer centers.
C	Align the ADP procurement and oversight process for nontactical ADP systems with the appropriate project management effort to ensure proper budgetary and project coordination and control.
C	Emphasize requirements for standardization of automated information systems within functional areas.
C	Report all DON owned software, which meets the requirements established by the Federal Software Exchange Center, to the SHARENET inventory.

Planned Milestones (FY 1992):

Date: Milestone:

09/92 Review and update policy and procedures to prevent  
redundant software development and maintenance.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Internal assessment will commence upon  
completion of the final milestone of corrective action which has  
an estimated completion date of September 30, 1992. Audit and  
inspection organizations will be consulted on the best methods  
of certifying the effectiveness of corrective actions.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Financial Accounting for Real and Personal Property

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: The Air Force does not comply with statutory Comptroller General and OSD requirements in accounting for an estimated \$187 billion of real and personal property. Property book systems maintaining item accountability are not integrated with financial accounting systems to concurrently record the dollar value of item transactions. General Ledger accounting adds a check and balance system to the property accountability system. Lacking mandated controls and required procedures, the Air Force cannot adequately account for real and personal property and provide assurance for the adequacy of controls as required by the FMFIA.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Air Force Appropriation numbers 57X3010, 57X3020, 57X3080, 57X3300, 57X3400, 57X3600, and 97X4930.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: TBD

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Until the weakness is corrected, adverse publicity and criticism will continue related to noncompliance with Public Law, Treasury and OMB directives, and overall lack of accountability for real and personal property. Additionally, the auditability of Air Force financial statements is impaired.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

12/91 Identify problem areas where short-term solutions are feasible and cost effective.

08/92 Complete development and testing of procedures, and systems for short-term solutions.

09/92 Complete implementation of short-term property control and accountability solutions.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: A post implementation Management Control Review will be performed to evaluate accounting system capability to capture Air Force property accounting data.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Civilian Retirement Claims Processing

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Army is not meeting the Office of Personnel Management (OPM) goal for agencies to submit 80% of all retirement, refund and death claims to them within 30 days from the date of separation. As reflected in the September 1991 OPM report, other government agencies met this goal 77 percent of the time whereas the Army met it only 68 percent of the time. Although the Army figures include some non-Army activities and exclude a large Army population in the Army Corps of Engineers, the Army processing rate is still unacceptable by law. Some known factors are delays by employees in applying for separation and delays of finance and personnel offices in forwarding retirement/separation records to OPM.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Failure to comply with the regulatory requirements hinders claim settlements and leads to undue hardship for separating or retiring employees. Continuation of this problem will result in adverse publicity for Army management.

Source(s) Identifying Weakness: Management Review from Congressional Inquiry



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Mandated use of OPM optional checklists to eliminate errors which cause delays.
C	Emphasize Army and OPM performance goals and educate work force on responsibility to submit claims in timely manner.
C	Provided feedback to installations on quality and quantity of submissions.
C	Devise and install automated monitoring system to identify source and cause of late submissions.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Produce and provide regular performance reports to major commands and responsible headquarters Department of the Army activities and agencies.
01/92	Finance network quality personnel review retirement processing as part of routine visits to Army finance and accounting offices.
03/92	Expand Quick Pay Test Project. (This will insure all retirees receive initial annuity check with no break in pay during transition from active to retired status).
03/92	Initiate a joint payroll/personnel Total Quality Management task force to identify and correct problems.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Management review validated by audit and inspection.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Desert Shield/Storm Soldier  
Indebtedness

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt  
Collection

Description of Material Weakness: Various situations inadvertently occurred which caused about 230,000 Reserve and National Guard personnel called to active duty as part of Desert Shield/Storm to be indebted to the U.S. Government. Situations occurred such as: three months of advance pay upon mobilization, reserve payroll not purged prior to conversion to JUMPS, late pay input of collection data and overpayment at separation. The current finance system's (hardware/software) lack of sufficient update cycles and direct remote input capability for pay transactions contributed to the problem. The shortened tour length which resulted in the immediate payback of all debt owed the Government at the time of separation further exacerbated the indebtedness problems.

Component/Appropriation/Account Number: Army/Military Personnel  
Appropriation

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The soldier indebtedness resulted in widespread media attention. The adverse news accounts also affect retention and recruitment of Reserve Component (RC) personnel. Members of Congress have also expressed an interest in this issue.

Source(s) Identifying Weakness: Assistant Secretary of the Army (FM), Defense Finance and Accounting Service - Indianapolis (DFAS-IN), MACOMS' Finance and Accounting Offices, and Individual Soldiers

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Accelerated processing and input of Southwest Asia (SWA) casual payments.
C	Controlled casual pay policy and procedures in SWA.
C	Advance Pay to RC volunteers limited to one month instead of three, unless requested and with justification.
C	DFAS-IN provided Army field finance offices with discharge/separation corrections.
C	Guidance provided by DFAS-IN and Army field finance network to correct SWA related entitlement, tax, and discharge/separation actions.
C	Per DFAS request, DASA-FO assisted in coordinating extension of 55 volunteer RC personnel at Fort Harrison to support Combat Zone Tax exclusion (CZTE) adjustments.
C	JUMPS/Joint Service Software (JSS) (new finance Hardware/Software) installed in first active component finance offices. Hookup for SWA in planning.
C	Finance Command (FINCOM) Bulletin No. 92-1 published dealing with Pre-Comps backlog at Finance and Accounting Offices (FAOs).
C	Action passed to DFAS-HQ (3 Oct briefing) reference need to strengthen existing procedures for upfront pay (advance pay and travel advance) to RC/NG personnel and more stringent controls over check cashing.
C	Joint Service Software (JSS) hookup installed in SWA.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Ensure compliance with new procedures to decrease instances of soldier indebtedness upon complete redeployment of most RC units from SWA.

01/92      Complete pay input for CY 91 W-2s.  
03/92      Complete fielding for JSS to active Army.  
04/92      Begin deployment of JSS to RC units.  
08/92      Complete JSS deployment to RC units.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: DASA-FO will monitor and validate each of the planned milestones until completion.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Overstatement of the Depot Maintenance Industrial Fund (DMIF) Miscellaneous Inventory Expense

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Inaccurate inventory balances caused overstatement of miscellaneous inventory expense in the industrial fund financial statements.

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Proper inventory accountability within the Stock Fund could be impaired.

Source(s) Identifying Weakness: AFLC internal management review in FY 1991.

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

12/91 Monitor Stock Control and Distribution System (SC&D) during first quarter of FY 1992.

01/92 Analyze and report results of System operations.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: A follow-up review will be performed to determine if the inventory problem still exists, after SC&D implementation across the Air Force Logistics Centers.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Depot Maintenance Industrial Fund (DMIF) Cost Accounting and Production Report is Inaccurate

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: DMIF unfunded investment exchangeables and FMS sales of exchangeable items may be incorrectly priced.

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: DMIF and FMS customers may be inaccurately charged for exchangeable items.

Source(s) Identifying Weakness: AFLC management review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Determine source of problem and develop alternative solutions.

C Implement interim correction.

Planned Milestones (FY 1992):

Date: Milestone:

None

Planned Milestones (Beyond FY 1992):

Date: Milestone:

10/92 Implement new source system interface.

Validation Process: Random sampling of costed exchangeable items sold through FMS will be conducted to substantiate proper exchangeable pricing.



**DEPARTMENT OF DEFENSE**  
**FISCAL YEAR 1991**  
**STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES**

Title of Material Weakness: Federal Insurance Contribution Act (FICA) and Federal Income Tax Withholding (FITW) Deposit Fund Balances

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Procedures for reconciling FICA deposit fund accounts are inadequate. Semiannual certification of FICA and FITW deposit fund balances cannot be substantiated due to the inadequate procedures. Reconciliation is also hindered by inadequate manual FICA adjustment processing procedures. An Internal Revenue Service (IRS) refund for Air Force was not properly accounted for between FICA and FITW accounts.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Air Force Deposit Fund Accounts, e.g., 57X68750020, 57X68750030, and 57X68750040.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: There will be inadequate FICA adjustment processing and reconciliation procedures for semiannual certification of deposit fund balances if the weakness is not corrected. The accuracy of military pay appropriation tax liability obligations will be in doubt. Adjustment processing and reconciliation procedures used to maintain military pay deposit fund records will not be in compliance with GAO standards.

Source(s) Identifying Weakness: Component Internal Review Organization. DFAS Internal Control Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Identify source of IRS refund and determine correct accounting transactions

Planned Milestones (FY 1992):

Date: Milestone:

10/91 Review existing deposit fund procedures and identify problems.

11/91 Write new operating instructions.

12/91 Train operating personnel on new procedures.

02/92 Develop new automated reconciliation products.

02/92 Review procedures for additional edits on manual processing.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Conduct follow-up Management Control Review in March 1992, to ensure new procedures solve the material weakness.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: General Ledger and Trial Balance Accounting

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Due to lack of training, base level Accounting and Finance Office (AFO) personnel did not comply with regulations and posted unsupported and arbitrary adjustments to the General Funds General Ledger (GFGL) and reported abnormal balances in the General Fund Trial Balance. Also, required reconciliations of general ledger control accounts with subsidiary accounts were not being performed.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/The weakness involved financial data reported for almost all Air Force appropriated funds.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Unsupported and arbitrary adjustments can result in incorrect financial statements, thereby distorting the results of operations and the value of assets, liabilities, and equity. Trial balances with abnormal balances totalling \$75.6 million were prepared at one location; general expenses at another installation were understated by \$13.7 billion.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Published Technical Bulletin Article.

- C        Prepared Draft Training Package for Command Coordination
- C        Performed Network Compliance Reviews.
- C        Distributed Training Package to AFOs.
- C        Revised Prescribing Directive.
- C        Established DFAS CFO Implementation Group to Track Corrective Actions and Provide Training Network.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Publish and Implement Guidance for Reconciliation of Each General Ledger Account.
01/92	Require Certification of Reconciliation Process.
01/92	Change Trial Balance Reporting from Semiannual to Monthly
03/92	Conduct Training Workshop for all Accounting and Finance Personnel

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Corrective actions taken provided universal awareness of the importance of the general funds general ledger process. Training and clarification of directives eliminated misunderstanding and minimized the potential for future noncompliance. As part of the overall plan for implementation of the Chief Financial Officers Act, training will continue to be emphasized and required monthly analysis of the account balances will provide the means to track the effectiveness of corrective actions. Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, or Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Base Contracting Automated System (BCAS) Interfaces

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Magnetic tape interfaces from BCAS for the local purchase requisition, solicitation, and contract award processes at base level do not provide the accounting systems all required data, do not provide all necessary contract modification data, and permit transmission of errors. Erroneous or incomplete data processed from BCAS results in errors in establishing accounts payable files and in reporting obligation data, as BCAS interfaces with the Material Accounts Payable System and the Commercial Services Accounts Payable System at base level.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Air Force Accounting and Finance Offices.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Because local purchasing and contracting activities may represent substantial dollar value input to the accounting systems, the accounting for and administration of contractor purchasing can be significantly compromised.

Source(s) Identifying Weakness: Air Force Audit Agency

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Define base level interface requirements.

Planned Milestones (FY 1992):

Date: Milestone:

03/92 In conjunction with the Office of the Secretary, Air Force/Financial Management (OSAS/FM), determine and resolve issues with Secretary of the Air Force/Acquisition (SAF/AQ), and coordinate any system change actions with Air Force Standard Systems Center (AFSSC).

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Close contact will be maintained with the AFSSC to coordinate and ensure implementation of revised and corrected system changes and interfaces. Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, or Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Inaccurate and Unreliable Contract Accounting

Functional Category: Functional Management

Administrative/Program Activity: Cash Management & Debt Collection

Description of Material Weakness: Air Force accounting systems use data abstracted from contracts as a basis for recording obligations. Accounting records are updated with payment data based on information interfaced from contract administration and contract payment records maintained by other contract payment offices. Controls are inadequate to ensure that contract and payment data are recorded accurately and timely in the accounting systems.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Air Force Accounting and Finance Offices

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Long-term system enhancements are underway. However, there is a need to identify problems and develop cost-effective/short-term (12 months - 36 months) solutions. This is being done by a joint DFAS and DoD component working group (Joint Contract Accounting and Finance Process Review Group). Interim actions are appropriate in view of the high volume and dollar value of centrally administered contracts (AFLC - 539,000 contracts worth \$83 billion, and AFSC - 20,456 contracts worth \$264 billion), the materiality of negative unliquidated obligations in Air Force accounting records (in excess of \$500 million), and the significant delay in posting payment transactions (up to 45 days).

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Finalize reporting requirements for Unliquidated Obligations with the Air Force
C	Determine feasibility of test concept (this is the first milestone for the actions detailed under B. Planned Milestones following).
C	Get agreement from the Air Force to establish test base (also pertains to B. Planned Milestones)

Planned Milestones (FY 1992):

Develop concepts and test procedures that will:

allow Air Force accountable stations to accept payment transactions that require adjustment and provide electronic notification to paying station so that corresponding adjustments are posted to payment records;

create a direct transmission of Contract Payment Notice (CPN) data for DFAS to Air Force accountable station with summary By-Others control of Departmental Level;

test programmatic data base comparisons between the Central Procurement and Accounting System (CPAS) and AFLC contracting system; and

make programmatic comparisons between CPAS and MOCAS.

Date:	Milestone:
10/91	Coordinate concept with DFAS and the Air Force.
11/91	Begin reporting Negative Unliquidated Obligation data through commands to DFAS (this relates to the first completed milestone identified above).
03/92	Develop detailed procedures and detailed test plan.
06/92	Complete test and evaluation of procedures.
07/92	Determine whether to expand to additional activities



Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: Corrective actions have been initiated. However, pending completion of consolidation and standardization and other CIM initiatives, the corrective actions are interim fixes. Under the direction of the Joint Contract Accounting and Finance Process Review Group, a number of different action plans have been established, with leadership responsibilities designated within DFAS, or the military services. The group will analyze problems, determine solutions, and proceed with implementation of interim fixes. Once the process is completed, a full Management Control Review will be conducted.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Retired Payroll and Check Register  
Microfiche Receipt and Retention - Disaster Recovery

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt  
Collection

Description of Material Weakness: There is no contingency plan  
in existence for retention of microfiche. In case of a physical  
or systems disaster, no back-up is available to ensure that  
records of retired members' payments are retained.

Component/Appropriation/Account Number: Defense Finance and  
Accounting Service/Marine Corps, 97X8097.2791 Retired Pay

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The organization could not  
establish what payments were made to its retirees, annuitants,  
or former spouses (102,000 pay accounts) which could result in  
extensive backlogs, erroneous payments, and extensive resources  
to identify these payments.

Source(s) Identifying Weakness: Internal Management Control  
Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Established location to store the microfiche.

Planned Milestones (FY 1992):

Date: Milestone:

02/92 Review contingency plan from Strategic Planning Initiative and determine if it is adequate to meet our requirements. If not adequate, box the microfiche and ship to off-site storage.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: After review of the contingency plan, we will conduct another Management Control Review to determine if an alternative selection is adequate.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Financial Accountability of Property

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: The Army is not in compliance with statutory, Comptroller General and OSD requirements for "financial" accountability of real and personal property estimated at \$200 billion. Property book systems maintaining item accountability are not integrated with financial accounting systems to concurrently record the dollar value of item transactions. General Ledger accounting adds a check and balance system to the property accountability system. Without the mandated controls, Army cannot report the reasonable assurance mandated by the Integrity Act.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Army/Operations and Maintenance, Army, 2020; Army Stock Fund, 4991; Army Procurement, 2030; Research and Development, 2040; Industrial Funds, 4992; and Military Construction, 2050.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date:

Reason for Change in Date(s): Lack of full general ledger control over property is considered a systemic weakness in the overall accounting system. This problem has been elevated to a DoD-wide weakness.

Impact of Weakness on Operations: Continued adverse publicity and criticism due to noncompliance with Public Law and implementing directives (OMB, Treasury, OSD, DFAS, and Army), lack of financial accountability over Army assets, and nonauditable financial statements.

Source(s) Identifying Weakness: Internal Management Control Review, DoDIG, and the General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Publish and issue accounting policy and procedures for implementing the Army Standard General Ledger.
C	Publish and issue expanded definitions of Standard General Ledger Accounts.
C	Identify logistics, engineer, and accounting systems which must be modified to provide an interface between property accountability and financial systems.
C	Issue regulatory guidance for financial accountability of property in Army Regulation.

Planned Milestones (FY 1992):

Date:	Milestone:
09/92	Revise or establish new Army Internal Control Review checklist for maintaining financial accountability of Army property.

Note: Weakness excludes financial accountability for Government Furnished Material (GFM) which was elevated to a Corporate Information Management (CIM) effort in early September 1990.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	To Be Determined

Validation Process: Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, or Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Negative Unliquidated Obligations (NULO)

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: GAO discovered approximately \$328 million in NULO balances in the accounting records of six major subordinate commands as of September 30, 1989. GAO found: a procedure was not in place to report and age the NULO balances, overpayments to contractors, processing errors, and efforts to resolve and correct NULO balances did not receive prompt attention.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Army/Army Procurement, 2030; Army Stock Fund, 4991; and Conventional Ammunition Working Capital Fund, 21X4528.0650.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1994

Reason for Change in Date(s): DFAS has expanded effort to cover similar weaknesses in all the Components.

Impact of Weakness on Operations: The effect would be continued adverse publicity and criticism due to uncorrected accounting errors and overpayments to contractors.

Source(s) Identifying Weakness: General Accounting Office and the DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Meet with Defense Logistics Agency/Department of the Army to establish plan for corrective actions needed to correct NULOs.
C	Establish requirements to report and age NULO balances.
C	Request 15-day turnaround for inquiries concerning Defense Contract Management Districts (DCMD).
C	Determine the control weaknesses that have caused NULOs and institute controls to correct.
C	Establish a new work group headed by DFAS - Headquarters and comprised of DFAS Center representatives and Component Liaison service staffs. (Joint Contract Accounting and Finance Process Review Group).
C	Establish action plans to analyze service wide problems with NULOs.

Planned Milestones (FY 1992):

Date:	Milestone:
07/92	Complete action plans and recommend corrective actions to appropriate offices (short range).

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
12/92	Resolve NULO balances already recorded in the accounting records and collect any overpayments made to contractors.
07/94	Complete actions plans and recommend corrective actions to appropriate offices (intermediate range).

Validation Process: Corrective action will be certified and reviewed through new reporting requirements and subsequent audits, inspections, quality assurance reviews, or Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Outstanding Travel Orders and Advances

Functional Category: Functional Management

Administrative/Program Activity: Cash Management and Debt Collection

Description of Material Weakness: Outstanding travel orders and advances were not being aggressively monitored and collected by base level accounting and finance personnel.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Network Air Force Accounting and Finance Offices

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1995

Reason for Change in Date(s): The resources to perform the enormous amount of research required to resolve this weakness had not been available. Also, a DoD-wide travel system is being developed which will not permit this condition to occur. This DoD-wide system is scheduled for full implementation in FY 1995.

Impact of Weakness on Operations: Base level accounting and finance personnel's failure to effectively follow-up on outstanding items hinders sound cash management and accountability. Lack of managerial control by supervisors, resource advisors, accounting and finance officers, and Major Commands (MAJCOMs) increases the risk that the Air Force will lose funds because outstanding advances and debts have not been properly settled. The dollar materiality of this weakness cannot be realistically estimated.

Source(s) Identifying Weakness: Air Force Audit Agency (AFAA)



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Increase management awareness by Accounting and Finance Officers (AFOs) of travel accounting deficiencies.
C	Stress importance of MAJCOM Comptroller involvement in resolving travel accounting deficiencies.
C	Develop retrieval program to permit central monitoring of payment data by major command headquarters and the Air Force.

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Request Secretary of the Air Force/Financial Management (SAF/FM) step-up efforts to attain resolution.
02/92	Review SAF/FM milestones to fix material weakness.
08/92	Assess SAF/FM efforts to resolve problem.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
02/93	Assess SAF/FM efforts to resolve problem.
09/93	Certification of effectiveness by MAJCOMs.
09/95	DoD-wide implementation of standard travel system.

Validation Process: Review reports of aging records to verify clearance of old outstanding travel orders and advances. Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, or Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Environmental Compliance Assessment Programs

Functional Category: Functional Management

Administrative/Program Activity: Other

Description of Material Weakness: The DoDIG stated that a joint DoD, Army, Navy, Air Force manual for the Defense Environmental Restoration Program (DERP) needs to be published and distributed at the working level. The manual should incorporate the Air Force and Navy IRP manuals along with the Army draft manual.

Component/Appropriation/Account Number: OSD/Operation and Maintenance, Service Components, 97 0810.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The lack of a DoD Directive has delayed the universal implementation of a comprehensive environmental compliance assessment program. DoD guidance is needed to ensure that there are assessment programs in place to identify environmental problems that expose installations to operational, regulatory, and legal actions.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date:	Milestone:
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06/92	Publish DoD Directive on Environmental Compliance Assessments.
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Planned Milestones (Beyond FY 1992):

Date:	Milestone:
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	None
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Validation Process: After the directive is promulgated, Components will be monitored to ensure that actions are taken to implement the directive.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Defense Environmental Restoration Program (DERP)

Functional Category: Functional Management

Administrative/Program Activity: Other

Description of Material Weakness: DoDIG identified deficiencies involving the lack of published OSD policy guidance governing several aspects of the program.

Component/Appropriation/Account Number: OSD/Operation and Maintenance, Service Components, 97 0810.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Draft policy guidance is out for coordination. However, the needed coordination with the activities affected by the draft policy guidance has resulted in delay in issuing the final policy.

Impact of Weakness on Operations: Until the identified weakness is corrected, the ability of DoD to implement the Defense Environmental Restoration Program at maximum efficiency and effectiveness is somewhat impaired.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

06/92 Publish DoD directive on DERP.

09/92      Certification of Defense Priority Model by the  
National Academy of Sciences.

Planned Milestones (Beyond FY 1992):

Date:      Milestone:

None

Validation Process: As the corrective actions are taken, the Assistant Secretary of Defense (P&L), the Components, and the Department of Defense Inspector General will be provided with documentation and/or briefings on the action taken.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Personnel Management and Administration

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organization Management

Description of Material Weakness: Through program reviews/inspections, the DoDIG, OASD(FM&P), and OPM identified programmatic and systematic deficiencies throughout the USUHS Personnel Management area. Weaknesses included regulatory, statutory violations coupled with insufficient staff levels and expertise in the functional areas of personnel management. There was no established EEO and Affirmative Action Program, regulatory requirements were not met in the USUHS Merit Promotion and Classification programs and the training program.

Component/Appropriation/Account Number: Uniformed Services University of the Health Sciences/Operation and Maintenance, Defense Agencies, 97X01008M; Research, Development, Test and Evaluation, Defense Agencies, 97X01008P.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1993

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Noncompliance with DoD personnel regulations and procedures result in unauthorized, and possibly illegal, personnel actions.

Source(s) Identifying Weakness: DoDIG, OASD(FM&P), OPM

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Restructure Personnel Office and select staff.

- C      Transfer service of Henry M. Jackson Foundation (HMJF) staff to HMJF Personnel Office.
- C      Develop Policy/Instructions for Classification/Position Management, Merit Promotion, Pay Policy, and Performance Appraisal.
- C      Change submission procedures for TIAA/Fidelity Contributions for faculty members.
- C      Develop office automation plan for CHRMD.
- C      Train CHRMD staff in all functional areas.
- C      Audit personnel folders for GS, GM, Wage Grade employees.
- C      Establish USUHS EEO and Affirmative Action Program.
- C      Establish USUHS Career Development and Employee Training Program.
- C      Validate information in the CHRMD Personnel Information Management System and the Civilian Personnel/Payroll Records.
- C      Establish USUHS Management-Employee Relations program.

Planned Milestones (FY 1992):

Date:	Milestone:
06/92	Establish USUHS Merit Placement Program.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
12/92	Complete position management and classification review.

Validation Process: It will be an item of audit follow-up for the DoDIG on subsequent inspections.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Lack of Standardized Cost Reporting Reserve Officers Training Corps (ROTC) Programs

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: GAO found, in its review of ROTC programs, that ROTC costs are not centrally standardized or reported. This lack of standardization was found to degrade the capability of ASD (Force Management & Personnel) to review ROTC program, budget, and actual costs associated with ROTC programs and provide appropriate oversight of and support for these programs.

Component/Appropriation/Account Number: OSD/Reserve Officers Training Corps Operation and Maintenance Appropriations (Program Element 814723), Army, Navy, and Air Force.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: The principal effect of a lack of standardized cost reporting for ROTC programs is an inability to monitor the respective programs of each of the Services at the DoD level. This in turn does not enable DoD to compare trends, analyze program/budget variations from year to year, or evaluate adequacy of funding for this program, which is the single largest source of newly commissioned officers for the Armed Forces.

Source(s) Identifying Weakness: General Accounting Office



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Develop Standard Cost Categories.
C	Issue Draft DoD Instruction for Coordination and Approval that specifies major appropriation and other cost categories associated with annual budget estimate submissions and actual outlays, by year.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Issue signed DoD Instruction.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	Annually Review Services' reported costs.

Validation Process: Validation of the measures taken to correct this material weakness are self contained within the proposed DoD Instruction on cost reporting. The data compiled within the database of OASD(FM&P), DASD(MM&PP) will be examined and compared to the President's Budget estimates submitted to determine and correct oversight deficiencies.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Child Development Program at Maxwell AFB, AL.

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: The Maxwell AFB Child Development Program facilities in two buildings did not meet Military Child Care Act of 1989 safety and security requirements.

Component/Appropriation/Account Number: Air Force/Operation & Maintenance, Air Force, 57\*3400

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Failure to comply with safety and security requirements of the Military Child Care Act of 1989 puts the safety or well-being of children at risk.

Source(s) Identifying Weakness: ASD (FM&P) Inspection

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Close building 505; terminate preschool program.
C	Improve training on child abuse prevention.
C	Institute comprehensive fire, safety, health, and sanitation inspections DOD requirements.

Planned Milestones (FY 1992):

Date:	Milestone:
01/92	Relocate infant and baby care program to another facility that meets all standards.
08/92	Reestablish preschool program in another facility that meets all standards.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: Air Force IG Inspection.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Lack of Baseline Manpower Survey

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: The University had not performed a complete baseline manpower survey for the administrative, teaching and research areas to determine the manpower requirements for appropriated funding support.

Component/Appropriation/Account Number: Uniformed Services University of the Health Sciences/Operation and Maintenance, Defense Agencies, 97X01008M; Research, Development, Test and Evaluation, Defense Agencies, 97X01008P.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): USUHS must validate the results of the FY 1991 manpower survey.

Impact of Weakness on Operations: The potential impact from this weakness on the USUHS operations includes the inability to (1) follow the DoD requirements to justify manpower for the organization; (2) establish requirements and track changes in workload; and (3) adequately justify budget submissions.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C	Review and brief working group on all relevant DoD regulations, guidelines, and methods to conduct baseline manpower surveys.
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- C      Manpower working group design survey approach for USUHS in collaboration with DoD liaison to ensure that the survey design and information to be gathered is appropriate and complete.
- C      Distribute survey instruments to all University employees and conduct in-depth interviews with activity heads and approximately 10 percent of the workforce.
- C      Convert names on survey instruments to numbers in a manner that assures confidentiality to the respondents but allows validation.
- C      Input data and analyze the content of all survey responses.
- C      Prepare report based on all information gathered and analyzed.

Planned Milestones (FY 1992):

Date:	Milestone:
11/91	Complete manpower training for all non-academic supervisors.
11/91	Complete planning for manpower validation of academic sections of the University.
12/91	Complete non-academic manpower validation and produce locally-justified Table of Distribution and Allowances (TDA) for non-academic sections of the University.
03/92	Complete validation of academic sections of the University and produce locally-justified TDA for academic sections.
04/92	Include TDA-based manpower needs in the USUHS POM submission.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: This will be an item of audit follow-up for the DoDIG on subsequent inspections.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Family Service Centers

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: Navy Military Family Service Centers serve as a focal point for information, referral and coordination of "family support system" programs and activities which work to prevent or reduce family and personal stress, and promote healthy community environments. However, program responsibilities at the installation level are not clear because of a lack of integration and an overlap of functions; standard criteria have not been established to assess future needs of the military community; and a system to measure program effectiveness is not in place.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Each year, Navy loses valuable personnel because of family considerations, such as prolonged separations, frequent relocations, and stress on family life in overseas locations. Navy regulations do not provide sufficient guidance concerning defined measures for Family Centers to achieve. Without such definition and measurements of effectiveness, Navy cannot fully determine the degree Family Centers are accomplishing Navy requirements.

Source(s) Identifying Weakness: IG, DoD

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

Planned Milestones (FY 1992):

Date: Milestone:

01/92	Identify data elements and develop a management information report which will allow Family Centers to reflect actual Center workloads accurately.
09/92	Conduct quality of life surveys on a regular basis, conduct trend analysis, and furnish them to the appropriate command personnel. Navy is currently conducting a Quality of Life survey.
09/92	Review Family Advocacy Program (FAP) policies and implementation to improve community awareness, controls, training, emphasis, oversight, and assignment of responsibilities.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: All corrective actions will be certified by the responsible component(s) through either a management control review or an on-site audit verification review. Certification will commence upon the completion of the final milestone of corrective action which has an estimated completion date of September 30, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Effects of AIDS in the Military

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: The Navy has done a good job in monitoring, educating and counseling re HIV infection. The education programs, however, did not focus on high-risk behaviors that place individuals at greater risks of infection, nor has the Navy attempted systematically to judge their effectiveness. Although AIDS has had a minimal impact on operations, it has had a significant impact on naval hospital resources during mass testing. An even greater strain was placed on naval hospitals providing care to HIV infected members. The impact on these hospitals is likely to increase as the size of the HIV-infected population grows. The Navy needs to develop plans to provide the resources to deal with the expected increase in demand for HIV/AIDS-related health care services.

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804.

Pace of Corrective Action

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1992

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: AIDS is an expensive disease to treat and treatment is labor intensive. If plans are not made to accommodate treatment of a HIV-infected population, the Navy's health care system may be adversely affected.

Source(s) Identifying Weakness: General Accounting Office



Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C        Modify the HIV/AIDS education programs to focus on  
         changing high-risk behaviors.

Planned Milestones (FY 1992):

Date: Milestone:

01/92    Evaluate the effectiveness of education efforts.

02/92    Develop plans for dealing with the increased demand  
         for HIV-related care that include budgeting for  
         treatment costs, selecting care facilities, and  
         determining the manner in which acute care needs  
         will be met.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of February 28, 1992.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Morale, Welfare, and Recreation Program

Functional Category: Functional Management

Administrative/Program Activity: Personnel and Organizational Management

Description of Material Weakness: Improvements were needed in procedures and controls over wire transfers, documentation, safeguarding assets, repurchase agreements, foreign currency, and retirement funds. Established procedures were not being followed. Consequently, program investments could be subject to fraud, waste, abuse and a loss of funds.

Component/Appropriation/Account Number: OSD/Operation and Maintenance, Nonappropriated Funds

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): The revision of DoD Instruction 7000.12, "Financial Management of Morale, Welfare, and Recreation Programs and Nonappropriated funds" is extensive. It has taken longer than anticipated because it required a major rewrite after initial coordination. We anticipate with the extensive coordination process and approval requirement, the directive will be complete by June 1992. In the interim, the DASD(PSF&E) sent a memorandum in April 1991 to the Services requiring that the provisions identified in the revised 7000.12 that comply with pertinent findings in the DoD Instruction requirement, require compliance.

Impact of Weakness on Operations: Without correction, morale, welfare, and recreation program investments would be subject to fraud, waste, and abuse and a loss of funds could have occurred.

Source(s) Identifying Weakness: DoDIG

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Reviewed all Service procedures to ensure compliance with DoD policy.

Planned Milestones (FY 1992):

Date: Milestone:

06/92 Revise DoD Instruction 7000.12 to require an annual update from each of the Services outlining investment practices, procedures, and audit compliance. A change to DoD Instruction 7000.12 is being coordinated which will resolve the issue.

Planned Milestones (Beyond FY 1992):

Date: Milestone:

None

Validation Process: The revision to the instruction requires an annual update from each of the Services outlining their investment practices. Updates will be evaluated by the OASD(FM&P) in conjunction with the IG, DoD.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Control of Telecommunications Resources

Functional Category: Program Management

Administrative/Program Activity: Systems Development and Implementation

Description of Material Weakness: There is a lack of controls over the certification process for payment of service orders and equipment rental bills. Defense Telecommunication Services-Washington (DTS-W) pays vendors for interstate private line circuits, leases approximately 175,000 stations and 125,000 CENTREX mainlines. These services and equipment are spread out over 300 locations in the National Capital Region. DTS-W does not have a comprehensive program of control over the payment for services or accountability of the inventory of the equipment that it leases on behalf of its Defense customers.

Component/Appropriation/Account Number: Army/Operations and Maintenance, all Defense agencies in the National Capital Region

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Failure to correct this weakness will cause an overpayment on equipment leases.

Source(s) Identifying Weakness: DoDIG; Other

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

None

**Planned Milestones (FY 1992):**

**Date:        Milestone:**

12/91	Establish inventory management program in compliance with new DoD Directive. Develop procedures and controls to manage and maintain inventory accountability. Determine essential requirements and prepare Statement of Work for contractual support.
01/92	Initiate process to acquire contractual support.
02/92	Prepare detailed analysis of the certification process.
03/92	Prepare report and recommendations on the certification process. Begin implementing the approved recommendations.
06/92	Determine staffing requirements and obtain approval to hire personnel consistent with requirement.
07/92	Award inventory management support contract and begin comprehensive inventory process.

**Planned Milestones (Beyond FY 1992):**

**Date:        Milestone:**

None

**Validation Process:** Management review validated by audit and inspection.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Emergency Action Plans

Functional Category: Program Management

Administrative/Program Activity: Systems Development and Implementation

Description of Material Weakness: NSA had not developed and implemented adequate Emergency Action Plans (EAPs) and procedures to provide for the safety of personnel and protection of sensitive equipment and material.

Component/Appropriation/Account Number: National Security Agency (NSA)/Operation and Maintenance

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Of the remaining two EAPs not in compliance, one EAP is in the coordination phase. This will be completed by November 30, 1991. The remaining facility requires a Memorandum of Understanding (MOU) since the Agency is a tenant at the site. The Office of Field Relations will not present the MOU until the Commander has signed the Unified Command Plan. The MOU is expected to be signed by March 1992.

Impact of Weakness on Operations: There is no impact on operations since the Base Emergency Plan would be implemented in the event of an emergency.

Source(s) Identifying Weakness: IG, DoD

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C	Established procedures that require each cryptologic site evaluated as risky or dangerous to assess and evaluate its classified material holdings annually.
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C        Report annually on the volume of classified material and equipment maintained on site and corresponding destruction capabilities. With the exception of the two sites requiring EAPs, all other field elements have approved Emergency Action Plans on file.

Planned Milestones (FY 1992):

Date:	Milestone:
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11/91	Final EAP approved by Office of Plans for one of two remaining sites.
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03/92	MOU signed by Commander, thereby ensuring approved EAP for the remaining field element.
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Planned Milestones (Beyond FY 1992):

Date:	Milestone:
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	None
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Validation Process: Followup of the corrective action is done through the NSA IG's office. Further, the DoDIG maintains a resident office at the NSA and ensures that corrective actions are completed as part of their normal audit and inspection process.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Munitions Accountability/Inventory Management of Munitions

Functional Category: Program Management

Administrative/Program Activity: Other (Force Readiness)

Description of Material Weakness: Munitions stock records account FK5207 at Kadena AFB, Japan was inaccurate indicating possible accountability discrepancies.

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Pace of Corrective Action

Year Identified: FY 1991

Original Targeted Correction Date: NA

Targeted Correction Date in Last Year's Report: NA

Current Target Date: FY 1992

Reason for Change in Date(s): NA

Impact of Weakness on Operations: Accurate accountability is essential to properly protect highly sensitive assets. Loss of accountability has fiscal as well as security implications. In addition, poor inventory management practices can result in operational shortfalls if munitions needed for frag or out load to other organizations cannot be located.

Source(s) Identifying Weakness: AFAA Report of Audit

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Conduct physical inventory of FK5207 account and initiate corrective action.
C	Publish regulation outlining each work center's responsibility.



**Planned Milestones (FY 1992):**

**Date:        Milestone:**

07/92        Conduct review by HQ functional office.

09/92        PACAF Inspector General inspection.

**Planned Milestones (Beyond FY 1992):**

**Date:        Milestone:**

None

**Validation Process:** Staff assistance and IG Teams perform sample (random) inventories on all visits and inspections.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Management of Aerial Targets

Functional Category: Program Management

Administrative/Program Activity: Other (Force Readiness)

Description of Material Weakness: There are many problems related to the management of aerial target systems. Destroyed targets valued at \$5.5 million were not billed to Foreign Military Sales countries. Nearly \$3.8 million in savings could be achieved by coordinating retirement, storage and conversion of aircraft to drones and by reclaiming components from full scale aircraft targets. The target air launch capability required improvement to satisfy increasing requirements for launch of supersonic targets. Target recovery boats were understaffed, and target at-sea decontamination procedures and training were insufficient. Sponsorship and coordination of the program were fragmented.

Component/Appropriation/Account Number: Navy/Research, Development, Test and Evaluation, 17X1319; Weapon Procurement, Navy, 17X1507; and Operation and Maintenance, Navy, 17X1804.

Pace of Corrective Action

Year Identified: FY 1989

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1991

Current Target Date: FY 1992

Reason for Change in Date(s): Revised target date required to finalize target requirement methodology among sponsors and claimants, and to issue revised guidance.

Impact of Weakness on Operations: Deficiencies in aerial target systems adversely affect wartime readiness. These deficiencies could result in weapon systems being tested against targets that do not fully simulate threats, and in the fleet training against simulated threats unlikely to be encountered during hostilities.

Source(s) Identifying Weakness: Naval Audit Service

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Coordinate retirement, storage and induction of aircraft into the rework and conversion facility.
C	Formulate a plan and request funding to ensure a continuing supersonic launch capability.
C	Establish a formal program for reclaiming components from all full-scale aerial targets.
C	Determine whether target recovery boat staffing is sufficient.
C	Revise at-sea target decontamination procedures.
C	Provide hands-on training in target recovery and decontamination procedures.
C	Initiate recoupment actions for targets and equipment expended by foreign countries.
C	Assign a central program sponsor/coordinator for Navy's target program.
C	Revise Navy instruction to require preparation and retention of documentation supporting requirements determination and identification during the aerial target requirements survey of targets needed by foreign users.
C	Improve guidance for determining target billing rates.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Establish policy for timely identification of target requirements and methods to be used for identifying new requirements, and ensure that requirements provide the best representation of projected threats.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
	None

Validation Process: All corrective actions will be certified by the responsible component(s) through an internal management review. Certification will commence upon completion of the final milestone of corrective action which has an estimated completion date of December 31, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Automated Mobilization System

Functional Category: Program Management

Administrative/Program Activity: Other (Force Readiness)

Description of Material Weakness: Some of the deficiencies discovered in the Army's management information systems would hamper effective mobilization and deployment of Army National Guard and Reserve units. Managers at mobilization stations and transportation agencies did not have ready access to timely and accurate information required for decision making. Data deficiencies in the Army Reserve Component mobilization system also restrict management ability to assess training needs and the mobilization potential of the Reserve Component forces.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army Reserves and Operations and Maintenance, Army National Guard

Pace of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1994

Current Target Date: FY 1994

Reason for Change in Date(s): Time needed to solicit contract to develop a new system. Also, management control of the Reserve Component Automation System (RCAS) Program was transferred from the Reserve to the National Guard.

Impact of Weakness on Operations: The complexity of maintaining administrative data for over one million soldiers who serve in the Reserve Components would continue to place an unnecessary burden on unit commanders and would adversely affect unit readiness.

Source(s) Identifying Weakness: General Accounting Office

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date:	Milestone:
C	Effect interim actions and controls to resolve the immediate deficiencies. (a) Place management control of RCAS program with the Chief, National Guard Bureau (CNGB). (b) New Program Manager (PM) charter approved by the Secretary of the Army and forwarded to Congress. (c) Army Reserve General Officer assigned as RCAS PM.
C	Develop an automated information management system to satisfy the long-range permanent needs for mobilization.
C	Release the final RFP for a fully competitive OMB Circular A-109 acquisition approach.
C	Contract for Competitive Demonstration.
C	Conduct and Evaluate Competitive Demonstration.

Planned Milestones (FY 1992):

Date:	Milestone:
10/91	Contract for Fielding Critical Elements.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
10/92	Begin fielding the Critical Elements.
09/94	Complete Critical Elements Fielding.

Validation Process: This will be a thorough process that will involve field and functional proponents' input; benefits analysis; independent verification and validation; field participation in the evaluation process and the competitive demonstrations; program reviews by Major Automated Information Systems Review Councils at DA and DOD levels; and RCAS Advisory Council.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
STATUS OF CORRECTIVE ACTIONS ON MATERIAL WEAKNESSES

Title of Material Weakness: Force Readiness

Functional Category: Program Management

Administrative/Program Activity: Other (Force Readiness)

Description of Material Weakness: Inaccurate accounting for mapping, charting, and geodesy (MC&G) war reserve stock (WRS) quantities on hand; policies and procedures were outdated; and war reserve activation procedures were outdated. In addition, there was the potential for overstatement of requirements by U&S Commands. An audit also uncovered a lack of war reserve requirement directives or instructions among the Unified Commands and a lack of uniformity in the methods used to compute quantitative requirements.

Component/Appropriation/Account Number: Defense Mapping Agency/Operations & Maintenance, Defense Agencies (DMA)

Pace of Corrective Action

Year Identified: FY 1985

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1994

Reason for Change in Date(s): Resolution of the weakness is dependent upon the successful development and implementation of the DMA Distribution Management System (DDMS). Due to contractor imposed slippage, Final Operating Capability for the DDMS is now scheduled for the second quarter of FY 1994.

Impact of Weakness on Operations: DMA may not be prepared to meet the requirements of the U&S Commands for MC&G products in crisis/contingency situations.

Source(s) Identifying Weakness: DoDIG and Internal Management Control Review

Major Milestones in Corrective Actions: (C = Corrected)

Completed Milestones:

Date: Milestone:

C Raise printing priorities.

- C Develop adjustment report for printing schedules.
- C Develop an annual review report for U&S Commands.
- C Automate inventory records at European storage facilities.
- C Revise instruction on WRS.
- C Fill WRS shortages from new maintenance and reprint programs.
- C DDMS contract awarded.
- C Update instruction on WRS.

Planned Milestones (FY 1992):

Date:	Milestone:
12/91	Command WRS automated submission.
03/92	Refine WRS requirements shortfall.

Planned Milestones (Beyond FY 1992):

Date:	Milestone:
02/94	Conduct wall-to-wall inventory.
02/94	Develop and install DDMS bar coding subsystem at consolidated depot.
02/94	DDMS ready for use.
09/94	Review/Certification.

Validation Process: Internal Management Review/Risk Assessment Study upon completion of wall-to-wall inventory comprised of HQ DMA and Component personnel including DMA IG participation.  
 Certification date: September 30, 1994.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
MATERIAL WEAKNESSES CORRECTED IN FY 1991

This enclosure identifies significant material weaknesses that have been corrected this report period. During FY 1991, DoD senior management continued emphasis on completion of corrective actions. As a result of aggressive actions on the part of DoD staff and Component management, 87 percent of all weaknesses reported from FY 1983 through FY 1991 were corrected as of September 30, 1991.

Beyond the specifically identified corrections of problems, the IMC Program has resulted in hundreds of managerial improvements which have enhanced the level of operational effectiveness. Many of these improvement actions are taken during the assessment process and, therefore, are not reflected in IMC reports. Thousands of DoD managers are involved in this program. During this reporting period they have improved policies and procedures; updated directives and other guidance; validated costs and requirements; reviewed reporting requirements; and have taken other steps to improve management.

The descriptions are organized by the OMB category designations listed below. Within each category, presentations are arranged chronologically, starting with the most current year, FY 1991. Additionally, corrected weaknesses addressing high risk areas are presented first within each year.

Categories which are either high risk areas or contain high risk areas, are shown below in boldface type. The high risk area "Financial Accounting for Real and Personal Property" is a subsection of Cash Management and Debt Collection and "Contracted Advisory and Assistance Services" (for which no weaknesses have been reported) is a subsection of Procurement.

Property and Inventory Management, including **Supply Operations**, Property Management, and Manufacturing, Maintenance, and Repair.

Procurement, including **Contract Administration**, Major Systems Acquisition, and RDT&E.

Program Execution, including Security Assistance.

ADP/ADP Security, including Information Technology.

**Cash Management and Debt Collection**, including Comptroller/Resource Management functions.

Personnel and Organizational Management, including Support Services.

Other, including Force Readiness.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Control of Government Property to Prevent Misuse and/or Pilferage

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Review policy and procedures to ensure separation of supply control duties.
C	Establish a Steering Group within the Scientific and Engineering Division (TIE) at WR-ALC.
C	Perform internal control reviews on supply operations.

Validation Process: Certification of the actions affected has been provided by each branch chief within the Scientific and Technical Division. Effectiveness will be determined by continuous review of the process and number of reports of lost tools/equipment processed. Personnel will be trained by quality teams for performing Internal Process Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Requirements Determination and Accountability

Component/Appropriation/Account Number: Navy/Procurement, MC, 17X1109; Operation and Maintenance, MC, 17X1106.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- C Review data elements used to compute stock requirements to ensure that the reviews are accomplished and that information reported is as accurate as possible.
- C Cancel procurement actions against the one line item determined to be excess and reutilized recouped funds for other priority purposes.
- C Direct field units to ensure that requirements for LCSS are accurately stated and advise field units to discontinue procurement of initial issues of LCSS.
- C Direct that excess LCSS assets be used to satisfy deficiencies of like requirements identified to Prepositioned War Reserve Stocks.
- C Retract serviceable LCSS from disposal and turn in the equipment to the Supply Management Unit.
- C Offer excess assets identified to other Services or agencies to attain allowable credit.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Quality Assurance on Aircraft Maintenance Contracts

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C Joint Task Force established by OSD(P&L).

C Complete review of DLA Manual 8200.5 for applicability to base level aircraft maintenance contracts.

C Inform OSD (P&L) that DLA manual is not appropriate for AF adoption; that alternative approach is needed.

C Implementation Plan defined by AF/LGM.

Validation Process: AF/LGM will designate an organization to monitor oversight of base-level quality assurance procedures for aircraft maintenance contracts.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Inadequate Controls Exist for Contractor Access to the DoD Supply System

Component/Appropriation/Account Number: OSD/Operation and Maintenance, Defense Stock Fund and Military Services' Stock Funds

Year Identified: FY 1989

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C	Implement an automated validation process for requisitions based on tables of National Stock Numbered or part Numbered items and quantities derived from contracts. All Services and DLA have implemented approved MILSTRIP Change 1A.
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Validation Process: Management control will be established to compare contract provisions for the supply of government-owned material to contractors with all requisitions for material generated by or designated for shipment to contractors.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Management of the Asset Capitalization Program

Component/Appropriation/Account Number: Air Force/Depot Maintenance Industrial Fund, Air Force, 57\*4922.

Year Identified: FY 1989

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Revise G017 user instructions, develop and release training package, issue procedures for contractor installed equipment.
C	Revise G017 policy guidance, issue procedures for duplicate entries and transfers.
C	Develop and release G017/VAX front-end software.
C	Issue G017 revised operating instructions.
C	Identify G017 interfacing system problems and associated with procurement and equipment disposal.
C	Complete physical inventory and validate depreciation values in G017. (All ALCs except OC-ALC completed September 1991; OC-ALC scheduled for completion in June 1992.
C	Effect changes on interface of the G017 equipment data system with the D002A supply system.

Validation Process: A continuous physical inventory will be accomplished on a pro rata basis (incremental, 1/8 per quarter) every two years. In addition semiannual reconciliations will be performed between the Depot Maintenance Equipment and the Supply System.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Identification and Cataloging of Supply Items

Component/Appropriation/Account Number: Air Force/Operations and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1988

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Establish, staff, train quality program office.  |
| C | Incorporate internal control procedures into Cataloging and Standardization Center (CASC) self-inspection program. |
| C | Develop statistical process controls.  |
| C | Improve CASC access to Command/DoD technical data resources.   |
| C | Update regulations to include corrective actions.  |
| C | Complete trial/test period, full implementation.   |

Validation Process: Using random sampling techniques, statistical process controls will be applied to ensure the accuracy of cataloged records.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Inaccurate Inventory/Stock Records

Component/Appropriation/Account Number: Navy/

Year Identified: FY 1986

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- C Establish controls to effectively identify, review and correct prepositioned war reserve stock reservation quantities at Navy commands and activities.
- C Use AUTODIN and DAAS to transmit stock reservation directive updates to stock points.
- C Reemphasize to commands/activities the importance of accurate inventory records and the need to comply with existing regulations.
- C Revise and develop stock point ADP programs to acknowledge reservation and receipt, reconcile reservation records and establish a browse routine for prepositioned war reserve stock. Both Inventory Control Points (ICP's) have instituted procedures to ensure that the additions and deletions to prepositioned war reserve stock levels generated during stratification are made accurately and timely by stock points.
- C Correct data exchange software, complete required inventory and devise a system to cancel invalid obligations as they are identified.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Inventory Accuracy

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1986

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- C Develop and implement key accuracy measurements which highlight the potential impact of inventory inaccuracies on customer support and expand analysis program to identify the causes of inventory inaccuracies.
- C Implement the Wholesale Receiving System at all ALCs. This system uses bar code technology in processing receipts.
- C Implement a new research and adjustment criterion which reduces research work load, improves timeliness of inventory actions, concentrates resources on the most productive areas, and eliminates automatic adjustments.
- C Implement the Wholesale Inventory Audit System at all ALCs. This system automates the entire inventory process from scheduling to the count card input.
- C Revise and publish AFLCR 67-9, "AFLC Inventory Control Program." The regulation implements the new Inventory Improvement Plan.
- C Implement the Automated Warehouse System to provide on-line computer capability for all processes associated with the physical handling and storage of material.
- C Implement the Stock Control and Distribution System to consolidate 23 major batch-process systems into an on-line, real-time system.
- C Implement Distribution Maintenance Support Center concept under Pacer Integrate and realign the functional operation of the Maintenance Inventory Center.

Validation Process: The process will include review of Inventory Accuracy and Performance Reports, AFAA compliance reviews, component staff assistance visits, and AFLC Inspector General visits.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Subsistence Due-in Files

Component/Appropriation/Account Number: Defense Logistics  
Agency/

Year Identified: FY 1985

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Dues-in violation controls.
C	Conduct preliminary review of Due-in accuracy.
C	Detailed analysis.
C	Develop short term proposals.
C	Implement short term proposals.
C	Collect data on corrective actions.
C	Evaluate corrective actions.

Validation Process: Physical verification procedures will be used to certify the effectiveness of the corrective actions. Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Improvements to the Three DLA  
Subsistence Supply Systems

Component/Appropriation/Account Number: Defense Logistics  
Agency/

Year Identified: FY 1985

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Develop personal computer applications.
C	Review subsistence system change requests.
C	Inventory accuracy addressed at conferences.
C	Training program.
C	Reverse World Wide Management of Subsistence Pacific.
C	Reverse World Wide Management of Subsistence Continental United States.
C	Quality control monitor.
C	Review for deficiencies.
C	FY 1986 internal controls
C	System change requests.
C	Collect data on corrective actions.
C	Evaluate corrective actions.

Validation Process: Physical verification procedures will be  
used to certify effectiveness of the corrective actions.  
Certification date to be determined.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Management of Critical and Sensitive Property

Component/Appropriation/Account Number: Defense Logistics Agency/

Year Identified: FY 1985

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Publish DoD Instruction for Demilitarization (DEMIL.) .
C	Develop DEMIL training course.
C	Publish overhauled DoD DEMIL.
C	Bring an automated imaging system on-line to store and provide DEMIL information to users.

Validation Process: Physical receipt of required information from the Military Departments is needed and evidence of a viable, on-going system to insure continuity.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Overpayments on Contracts

Component/Appropriation/Account Number: Navy/Navy Stock Fund,  
17X4911

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Follow the Federal Acquisition Regulation guidelines, (FAR 32-503) and require contractors to include a supporting schedule identifying the costs applicable to each order with each progress payment request under Basic Ordering Agreements. |
| C | Assess the vulnerability of assessable units in the area of contract payments and overpayments and conduct the necessary management control reviews.   |
| C | Make provisional delivery payments in accordance with requirements of the Department of Defense FAR Supplement and the provisions of Basic Ordering Agreements.  |

Validation Process: All corrective actions are certified by the responsible component(s) and reviewed through subsequent audits, inspections or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Time and Materials Contracts

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804; Other Procurement, Navy, 17X1810; Weapon Procurement, Navy, 17X1507; Shipbuilding Conversion, Navy, 17X1611; and Aircraft Procurement, Navy, 17X1506

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Issue policy memorandum to Navy buying commands that clarifies the Navy's policy on the justification, selection, and use of time-and-materials contracts. |
| C | Require the review of the rationale for contract type selection by the Procurement Management Review (PMR) function.                                       |

Validation Process: Include as a special interest topic on at least the next Procurement Management Review cycle.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Organizational, Reporting and Communications Improvements within the Acquisition Process

Component/Appropriation/Account Number: Navy/Research, Development, Test and Engineering, 17X1319; Aircraft Procurement, Navy, 17X1506

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | A-12 program should be a Direct Reporting Program Manager reporting directly to ASN (RD&A) rather than through a Program Executive Office. |
| C | Revise guidance on Defense Acquisition Executive Summary Reporting.  |
| C | Devote adequate resources, support and training for revitalizing use of cost performance analysis.   |

Validation Process: Corrective actions will be validated through follow-up reviews, program reviews and audits.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Architect-Engineer (A-E) Contracting at Ramstein Air Base

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Issue detailed criteria for selection boards to follow in selecting architect-engineering contractors.
C	Issue procedures requiring a separation of duties between personnel serving on the preselection board and final evaluation boards for architect-engineering contracts.
C	Establish additional controls to ensure required certified cost and pricing data from prospective contractors for use in negotiations.
C	Publish USAFE supplement to AFR 88-31 to assure that all actions required by regulations are accomplished.

Validation Process: Increased management oversight and periodic random sampling of architect-engineer contracts will be initiated.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Contracting through Interagency Agreements

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |   |
|---|---|
| C | Establish Air Force action team to develop and implement corrective action. |
| C | Develop recommendations.  |
| C | Draft policy and changes to applicable regulations.                         |
| C | Coordinate and implement changes.   |

Validation Process: Includes as special interest item for future IG inspections.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: NATO Anti-Air Warfare System

Component/Appropriation/Account Number: Navy/Research,  
Development, Test and Engineering, 17X1319

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Prepare and promulgate NAAWS SYSTEM THREAT ASSESSMENT REPORT (STAR).
C	Conduct COST and OPERATIONAL EFFECTIVENESS ANALYSIS to determine trade offs between new system developments and upgrade of existing systems.
C	Prepare PROGRAM CHANGE APPROVAL DOCUMENT (PCAD) addressing short range anti-air warfare (AAW) requirements including shipfit candidates.
C	Validate requirements in AAWMASTERPLAN assessment.
C	Prepare COOPERATIVE OPPORTUNITIES DOCUMENT to define potential for NATO cooperative development to fulfill PCAD.
C	Negotiate NATO STAFF REQUIREMENT (NSR) document to define requirements for cooperative system development including international shipfit candidates to replace NFR-90.
C	Restructure program to reflect NSR.
C	Assess program structure, funding and requirements in Navy Program Decision Meeting.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Price Challenge Program

Component/Appropriation/Account Number: Navy/Aircraft Procurement, Navy, 17 1506; Navy Stock Fund, 17X4911; Shipbuilding Conversion, Navy, 17 1611; Weapon Procurement, Navy, 17 1507; Other Procurement, Navy, 17 1810; and Operation and Maintenance, Navy, 17 1804.

Year Identified: FY 1989

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Update price challenge records and the Price Inquiry Processing System (PIPS), and monitor PIPS to ensure sufficient action is taken on potential refunds.
C	Develop uniform procedures for identifying potential refunds and revise thresholds that prevent pursuit of refunds.
C	Revise refund guidance to apply to all types of contracts, ensure the revised clause is inserted in future contracts, and require the use of price challenge information during negotiations.
C	Develop and issue guidelines establishing the amount of research necessary to determine a reasonable price.
C	Request voluntary refunds from contractors and FMS cases and report actual collections.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Warranty Administration

Component/Appropriation/Account Number: Air Force/Depot  
Maintenance Industrial Fund, Air Force, 57\*4922.

Year Identified: FY 1986

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	HQ USAF approval of MAJCOM Warranty Administration Plan.
C	Review and revise procedural directives and regulations.
C	Implement AFR 800-47.
C	Perform study, develop recommendations for system implementation and warranty training programs.
C	Institute inter/intra command revised procedures for warranty tracking and administration.

Validation Process: The Air Force Audit Agency will be requested to perform a follow-up audit to verify that appropriate procedures are in line with the warranty plan.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Financial Control Procedures for Contract Field Teams (CFT) Supporting Foreign Military Sales (FMS).

Component/Appropriation/Account Number: Air Force/Operations and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |   |
|---|---|
| C | Amend AFLCM 177-27 to include pricing guidance for exchangeable items.                                    |
| C | Issue interim change to AFM 67-1, Vol IV to strengthen project office financial control responsibilities. |

Validation Process: The Air Force Audit Agency will be requested to perform a follow-up audit after revisions are in place.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Security Assistance Operations

Component/Appropriation/Account Number: Navy/Foreign Military Sales, 17X8242.

Year Identified: FY 1989

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Use the Navy Security Assistance Data System (NSADS) network to improve case management.
C	Develop case execution and closure review schedule.
C	Improve coordination role in the FMS budget development and execution processes.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Critical Design Review (CDR)  
Criteria for the Depot Maintenance Management Information  
Systems (DMMIS).

Component/Appropriation/Account Number: Air Force/Operations  
and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C Develop and communicate policy regarding criteria  
for all required program management reviews.

Validation Process: Each Logistics Management Systems Program  
Management Office received policy guidance on CDR performance.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Continuity of Operations Plans  
(COOP) for Critical Data Processing Systems

Component/Appropriation/Account Number: Air Force/Operation and  
Maintenance, Air Force, (57\*3400).

Year Identified: FY 1988

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | List contractor developed COOP for USAFE worldwide Military Command and Control System sites.                  |
| C | Publish USAFE Supplement 1 to AFR 700-7 to identify the requirement for the development and testing of a COOP. |
| C | Publish USAFE Plan 4662 to provide the format, guidance, and instruction for the development of a COOP.        |
| C | Write and finalize OPLAN 4102.   |
| C | Write, test and evaluate USAFE Plan.   |

Validation Process: Simulated operational test.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Control Deficiencies in the Korean Local National Pay and Leave Accounting System (KLNPLAS) Redesign Project

Component/Appropriation/Account Number: Air Force/Operation and Maintenance, Air Force, 57\*3400.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Design a computer security training program for KLNPLAS personnel.                               |
| C | Validate Time and Attendance controls.   |
| C | Establish controls to ensure future development efforts have a trained program manager assigned. |

Validation Process: On-site supervisory review techniques were used to verify the effectiveness of corrective action. Certification date, July 1, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Unliquidated Credit Obligations (ULOs)

Component/Appropriation/Account Number: The Defense Finance and Accounting Service/The Procurement and the Operations and Maintenance Appropriations of the Military Services and Defense Agencies that Mid-Atlantic CAS Payment Directorate supports; Defense Business Operating Fund.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |   |
|---|---|
| C | Implement credit ULO review procedures.   |
| C | Review compliance with established review procedures.   |
| C | CPA firm hired to audit contracts and correct the causes behind credit ULOs and related problems. |

Validation Process: Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, and Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Retirement Controls

Component/Appropriation/Account Number: Defense Finance and  
Accounting Service/Operations and Maintenance (O&M).

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Research Retirement Controls to determine Out of Balance Accounts.
C	Prepare System Analysis Reports Document (SARD) to Print Soft Copy 2806 for Audit Purposes.
C	Correct Out of Balance Conditions.
C	Follow-up review.

Validation Process: Management Financial Quality Control Review and follow-up Management Control Review.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Lost Payment Documents and Contract Folders

Component/Appropriation/Account Number: Defense Finance and Accounting Service/The Procurement, and Operations and Maintenance Appropriations of the Military Departments and Defense Agencies that Mid-Atlantic Contract Administration Services (CAS) Payments Directorate supports; Defense Business Operations Fund.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Verify missing contract list against physical files.
C	Determine importance of missing contracts.
C	Identify file maintenance problems, and revise or rewrite desk procedures for file maintenance.
C	Reconstruct essential missing contracts.
C	Obtain necessary documentation to complete file reconstruction.

Validation Process: Corrective action will be certified by the Component and reviewed through subsequent audits, inspections, quality assurance reviews, and Management Control Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Incorrect/Incomplete Accounting for Direct Remittance Payments for Retired Pay

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Marine Corps, 97X8097.2791

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C Implemented standard operating procedures and desk top procedures.

Validation Process: The Management Control Review in September 1991, ensured that the SOP and desk top procedures are accurate and effective in accounting for direct remittance payments.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Inconsistent Training and Lack of Understanding of the Establishment of New Retired Pay Accounts.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Marine Corps, 97X8097.2791

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C Completed training packets for establishment of new accounts for enlisted members.

C Completed training packets for establishment of new accounts for officers.

Validation Process: The effectiveness of the corrective action is validated by the monthly Performance Appraisal Reviews, which indicated that the Retired Pay Division is paying 94 percent of the retirees within 30 days of the date of retirement.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Failure to Identify all Recipients of Severance/Separations Pay

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Marine Corps, 17X1105.2701 for officers; and 17X1105.2702 for enlisted.

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

C Modifications were made to the Retired Pay Personnel System to correct material weakness.

Validation Process: Reports will be audited to ensure that collection action is being taken on retired members that received severance/separation pay. A follow-up Management Control Review will be conducted to ensure compliance.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Inadequate Controls Over Incoming Remittances, Returned Checks, and Stop Pay Requests.

Component/Appropriation/Account Number: Defense Finance and Accounting Service/Army/Military Retired Pay Trust Fund

Year Identified: FY 1991

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Establish standard desk operating procedures for employees who handle remittances, stop payment requests, and returned checks.     |
| C | Trained employees on the use of the cash blotter which is a ledger which reflects all cash payments received for Army Retired Pay. |
| C | Validate new procedures.   |
| C | Compliance with new procedures will be incorporated in employee's performance standards.   |

Validation Process: On-site Internal Management Control Review.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Hazardous Waste/Materials Funds Control

Component/Appropriation/Account Number: Defense Logistics Agency/Operations and Maintenance, 9700100.51

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Issue policy to DRMS for funds control.
C	Change Military Standard Billing System.
C	Implement system change request for Base Operating Support System to allow the use of interfund billing procedures outside DLA.

Validation Process: Physical verification procedures will be used to certify the effectiveness of the corrective actions.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Fast Pay

Component/Appropriation/Account Number: Defense Logistics  
Agency/

Year Identified: FY 1988

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Implement an on-line process making active contract data and contract technical data available to the depot.
C	Provide reject receipt transaction resolution capability on-line to the Defense Supply Centers.
C	Implement system changes for revised fast pay policy at DLA Centers.
C	Form a DPSC working group to resolve claims issued.
C	Implement a discrepancy tracking system to identify problem vendors.
C	Publish DLA intent to change its fast pay procedures in the Federal Register.
C	Provide written instructions to Commander, DPSC on the required review/approval provisions for fast pay contracts over 25,000.
C	Issue DLA policy letter to DSCs on how fast pay will be implemented.
C	Issue guidance to procurement activities stressing that fast pay awards are intended to be a privilege of good performing contractors, and that contractors on which there are too many discrepancy reports should not be eligible for fast pay awards.
C	Monitor DPSC actions on resolving outstanding claims until all collections or other final resolution actions are done.
C	DLA deviation to DPSC for review/approval of fast pay awards over \$25,000 to expire and DPSC must comply with review/approval.

C            Implement system changes for revised fast pay  
policy at DLA Supply Centers:

SASPS

POPS

DISMS (Deviation received from DASD(P). Fast Pay  
procedures must be implemented for DISMS by January  
31, 1991.)

Validation Process: Physical verification procedures will be  
used to certify the effectiveness of the corrective actions.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Travel Advances

Component/Appropriation/Account Number: Navy

Year Identified: FY 1985

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	DON develop a plan of action and milestones to address travel/travel advance related deficiencies from a Navy-wide perspective and complete appropriate corrective actions.
C	DON apply renewed emphasis in the areas of follow-up and settlement of travel advances to obtain substantial correction of weaknesses Marine Corps-wide.
C	Incorporate improved travel control and monitoring capabilities in the Standard Accounting, Budgeting and Reporting System (SABRS).
C	Provide improved temporary additional duty computation, management reporting and check production capabilities through the Marine Corps Travel Advance and Settlement System (MCTASS).

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Management of Transient Housing

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army, 2020

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |   |
|---|---|
| C | The Army issued an Internal Control Review checklist which addresses minimum essential controls for transient lodging operations.   |
| C | The Army Chief of Engineers issued a message to all MACOM commanders emphasizing responsibility for complying with the DoD policy on maintenance and use of DoD Form 2085, Unaccompanied Personnel Housing Inventory and Utilization Data.              |
| C | Reviewed transient lodging operations during functional audits of Morale, Welfare and Recreation activities. The functional audits generated advisory reports, which were distributed Army wide.  |
| C | Army Forces Command restated existing policy on statements of nonavailability and instructed installations to comply.   |
| C | The USAAA reviewed Distinguished Visitors Quarters at 20 sites to ensure furnishings and facilities generally were limited to quality essential items while avoiding procurement of luxury items.   |
| C | Established separate fund accounts at Army installations as well as at the Central CFSC Bank, Manufacturer's Hanover Trust. Installation housing and billeting managers have been appointed as fund managers. Billeting funds segregated Sep. 30, 1991  |
| C | Receive new DoD guidance on separation of billeting monies. (Army will implement new policy within 90 days). The transient lodging fund and the single fund have been segregated from the installation in anticipation of the revision of the MWR DODI. |
| C | The Army will review current transient housing system policies, procedures, and practices. It   |

will coordinate the results with OSD to determine whether corrective action or policy reinforcement is necessary for improving the reservation system and utilization of Army transient housing.

- C        The DOD will conduct a complete review at all TDY transient housing locations to determine the extent of transient billeting service charges made in excess of operations and capital purchase and minor construction expenditures at each location from FY 87 through FY 1989. Disposition of any excess charges will be determined after a legal review.

Note: The DoD is currently conducting a survey as outlined above. However, based on the numerous corrective actions that have been taken by the Army on this material weakness, the materiality of this weakness has been reduced and internal management controls are in place and effective.

Validation Process: The Army implemented a program of housing evaluation and on-site monitoring, to include triennial review of transient housing and related operations. This program will ensure proper installation observance of Army transient housing regulations and procedures to include: adequacy and appearance, service charges, availability of housing for soldiers, and funds management. In addition, the Housing Operation Management System billeting module is being reviewed to find an efficient method of separating TDY and guest house revenues. The Army conducted regional budget workshops to provide "refresher" financial management training to Housing and Billeting personnel. Initial billeting fund budget guidance for nonappropriated funds has been distributed to installations, with the first update scheduled for December 1, 1991.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Hospital Infection Control Program

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17 1804.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Update instructions to include components similar to GAO's basic elements.                                     |
| C | Require hospitals to provide additional resources for infection control where appropriate.                     |
| C | Ensure that staff assistance visits are conducted by those familiar with infection control program activities. |

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.



DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Third Party Collection Program

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17X1804.

Year Identified: FY 1990

Major Milestones in Corrective Actions: (C = Corrected)

Date: Milestone:

- |   |  |
|---|--|
| C | Direct naval hospitals to fully implement a Third Party Collection Program by establishing procedures to identify inpatients with health insurance, document the query and resolve open and unpaid claims. |
| C | Review quarterly reports submitted by the hospitals to ensure implementation of the collection program.  |
| C | Issue standardized guidance for the MEPRS to activity comptrollers.  |

Note: A survey was intended for retirees and dependents, but the Department determined that it would not be cost effective to survey retirees and dependents discharged during FY's 1989 and 1990. However, Navy intends to place increased emphasis on reimbursement of third party accounts in the current and future fiscal years.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
CORRECTED MATERIAL WEAKNESSES

Title of Material Weakness: Reinvestigating Top Secret Clearances

Component/Appropriation/Account Number: Navy/Operation and Maintenance, Navy, 17 1804.

Year Identified: FY 1989

Major Milestones in Corrective Actions: (C = Corrected)

Date:	Milestone:
C	Establish a centralized data base of personnel holding Top Secret clearances.
C	Identify all personnel holding Top Secret clearances without reinvestigations.
C	Identify all personnel having Top Secret clearances whose background investigations or secret background investigations were accomplished prior to 1984.
C	Establish procedures to notify commands to request Defense Investigative Service to conduct Periodic Reinvestigations (PRs).
C	Establish procedures to ensure reinvestigations are conducted as required.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
REPORT ON ACCOUNTING SYSTEM CONFORMANCE TO  
COMPTROLLER GENERAL ACCOUNTING PRINCIPLES, STANDARDS  
AND RELATED REQUIREMENTS

Pursuant to Section 4 of the Federal Managers' Financial Integrity Act of 1982, we reviewed the Department of Defense (DoD) accounting systems, as defined by the General Accounting Office (GAO), during the fiscal year ending September 30, 1991. These reviews were conducted in accordance with guidelines issued by the Office of Management and Budget and encompassed the principles, standards, and related requirements prescribed by the Comptroller General. DoD employs a comprehensive and formal process to determine the compliancy and overall quality of their accounting systems. Evaluation methods include the application of detailed accounting system review guides utilized by system managers, designers, operators, and clients to determine compliancy of their systems; independent third party examinations performed by auditors and trained evaluators; and executive oversight of corrective actions through the Defense Management Review and Corporate Information Management process.

Attached is a summary table of nonconformances (Enclosure E-1, Part 1), description of pending nonconformances (Enclosure E-2), description of nonconformances corrected in FY 1991 (Enclosure E-3), and an inventory of the 281 DoD accounting support systems that make up the six DoD subsidiary systems of general accounting, military pay, civilian pay, stock fund, industrial fund, and trust fund (follows the conclusion of Enclosure E-3). This inventory is presented differently from last years because, in accordance with OMB and DoD guidance, it is arranged by function, and accounting support systems are listed individually rather than grouped under collective headings. Included in the accounting support systems are five systems that qualify as Primary systems because they are standard Departmental or Agency level systems. The inventory of accounting support systems contains the Military Departments' and DoD Agencies' assessments of conformance with GAO accounting principles, standards, and related requirements.

During FY 1991, over 270 of the accounting support systems were reviewed by the Military Departments and DoD Agencies using Component unique criteria and procedures. Based on those and prior reviews the Military Departments and DoD Agencies found that 238 of 281 accounting support systems were judged to substantially conform with GAO accounting principles, standards, and related requirements. Accounting support systems in the sub-idiary systems for General Accounting, Stock Fund, and Industrial Fund were judged to have material problems that significantly affected their performance and prevented the certification of those systems as being in substantial conformance with GAO accounting principles, standards, and related requirements. The Military Pay, Civilian Pay, and Trust

Fund subsidiary systems were found to be in substantial conformance. The Trust Fund was judged to conform for the first time this year because of major improvements implemented as a result of the Foreign Military Sales Financial Management Improvement Program. In FY 1992, DFAS will further standardize the DoD Section 4 program for determining nonconformances. The correction of material weaknesses or nonconformances will be standardized and controlled through the Defense Management Review and Corporate Information Management process. FMFIA policy and procedures will emphasize the centralization and standardization of operating procedures to ensure consistency of reporting, streamline reporting requirements to eliminate redundancy and excessive paperwork, and stress program quality. The FMFIA program will provide an ongoing, DFAS controlled process to monitor the compliance of accounting and finance systems and validate the effectiveness of the implemented systems corrections or improvements.

PART 1  
SUMMARY TABLE - CONTENTS OF MATERIAL NONCONFORMANCES

<u>Name of System/ Title(s) of Nonconformances</u>	<u>First Reported</u>	<u>Target For Correction in 1990 FMFIA Rpt.</u>	<u>Current Target for Correction</u>
General Accounting System- General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/Cost Accounting/ System Controls/Audit Trails/ System Documentation/System Operations/User Information Needs/Budgetary Accounting	1983	1994	See E-2, General Accounting System, for explanation.
Stock Fund Accounting System - General Ledger Control and Financial Reporting/ Property Accounting/Accounting for Receivables/System Controls/ Audit Trails/System Documentation/System Operations/ User Information Needs/ Budgetary Accounting	1983	1994	See E-2, Stock Fund Accounting System, for explanation.
Industrial Fund Accounting System - General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/Military and Civilian Payroll Procedures/ and Financial Reporting/ System Controls/Audit Trails/ System Documentation/System Operations/User Information Needs/Budgetary Accounting	1983	1994	See E-2, Industrial Fund Accounting System, for explanation.

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FISCAL YEAR 1991  
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PART 2  
DESCRIPTION OF PENDING MATERIAL NONCONFORMANCES

Name of System: General Accounting System

Title of Material Nonconformances: General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/Cost Accounting/System Controls/Audit Trails/System Documentation/System Operations/User Information Needs/Budgetary Accounting

System Type: Core \_\_\_\_\_ Subsidiary X Program \_\_\_\_\_

Functional Category in Statistical Summary: General Accounting

Bureau/Appropriation/Account Number: Various

Administrative Activity/Program Activity: Accounting and Finance/Reporting

Pace of Corrective Action:

Year Identified: 1991

Original Targeted Correction Date: See "Critical Milestones in Corrective Action" for explanation.

Targeted Correction Date in Last Year's Report: See "Critical Milestones in Corrective Action" for explanation.

Current Target Date: See "Critical Milestones in Corrective Action" for explanation.

Reason for Change in Date(s): Material nonconformances in DoD General Accounting Systems have been noted for many years. Military Departments and DoD Agencies had their own projects to correct the material nonconformances which were in various stages of completion. Many of these projects were experiencing difficulty and implementation dates were constantly extended. To correct existing material nonconformances and provide economies and efficiencies of scale, DoD selected standardization of General Accounting and Fund Accounting as a Corporate Information Management initiative.

Description of Material Nonconformance and Its Impact on Agency Operations:

General Ledger Control and Financial Reporting. General ledger account structure does not follow DoD's required structure. The system does not fully maintain double entry general ledger accounts. Accounting reports are not fully based upon general ledger accounts.

Property Accounting. The value of property, plant, and equipment, or material, including government-furnished material and property, is not recorded at full cost in the accounting system's records or is not maintained under continuous financial control. All acquisitions, transfers to/from other agencies, donations, sales, abandonments, demolitions, disposals, etc. are not recorded and/or are not based upon authorized financial transactions.

Accounting for Receivables. Amounts owed to the U. S. Government are not always recorded. Accounts receivable are not recorded promptly, controlled or monitored, and reported accurately and promptly. Inability to calculate interest, penalties, or administrative charges on overdue accounts.

Cost Accounting. All operational costs are not recorded in the accounting records for prescribed activities.

System Controls. Passwords and other techniques are not employed to protect software and files from accidental or malicious modification, destruction or unauthorized disclosure. Procedures are not established which define and control who can initiate a system change and who can authorize a system change. Transactions are not authorized, recorded, executed, and traceable to the person making the entry. Controls do not ensure that all errors are revalidated in a timely manner. There are no procedures in place for periodically reviewing errors by type and source. Error rates are not recorded and monitored.

Systems Documentation. System documentation does not exist or does not adequately describe the system design and procedures. The detailed accounting system design package does not document completely the functional user's requirements. The package does not consist of narrative explanations of required accounting processes, flowcharts, internal controls that must be incorporated within the accounting system, illustrations of source documents, and accounting output products. The package is not complete enough to allow an accountant who is unfamiliar with the accounting system to determine internal processing and controls and the system's compliance with prescribed accounting requirements.

System Operations. System or system segments do not adequately interface and/or ADP hardware or software and related manual processes are incomplete, outmoded, nonstandard, and require duplicative processing. There is no contingency plan or alternate site computer in the event there is an emergency or computer failure. Files are inadequately protected from loss or unauthorized changes while being accessed and maintained and backed up to ensure reconstruction. System and error rates are not monitored continuously to eliminate inefficient, uneconomical procedures and information.

User Information Needs. General ledger and subsidiary account structure, and financial reports are not current and sufficiently detailed to satisfy user needs.

Budgetary Accounting. Accounting information does not fully support budgetary requirements. The system is not able to record, store, and report data to facilitate budget preparation, analysis, and execution. Data is not classified uniformly and is not at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets without excessive aggregation or disaggregation. Presidential and congressional decisions are not recorded precisely and financial management data on results is not classified to track such decisions.

Source of Discovery of Material Nonconformance: Evaluations, Reviews and Audits.

Critical Milestones in Corrective Action: DFAS has established an initiative to select a standard migratory system for General Accounting and Fund Accounting, and to consolidate operations to achieve the full benefits of standardization. The standard and/or consolidated General Accounting and Fund Accounting initiative will provide DoD with fully automated standardized system supported by standard policies, procedures, practices, and organizations. The standardization and consolidation of operations will eliminate the systemic duplication and inefficiencies that are in today's financial and central design agent operations. Also, in support of the high risk area of Financial Accounting for Real and Personal Property this initiative will introduce proper identification, costing and control of property.

Completed actions/events:

<u>Critical Milestones</u>	<u>Original Plan</u>	<u>Completion Date</u>	
		<u>Current Plan</u>	<u>Actual</u>
Functional Recommendation			
Funds Distribution	Aug 31, 1991	Aug 31, 1991	Aug 26, 1991
Dept Acctg/Rptg	Aug 31, 1991	Aug 31, 1991	Aug 26, 1991



Planned actions/events (short term - next 12 months):

<u>Critical Milestones</u>	<u>Completion Date</u>	
	<u>Original Plan</u>	<u>Current Plan</u>
Functional Recommendation		
Field Accounting	Aug 31, 1991	Mar 31, 1992
Technical Evaluation		
Funds Distribution	Aug 31, 1991	Dec 31, 1991
Dept Acctg/Rptg	Aug 31, 1991	Dec 31, 1991
Field Acctg/Rptg	Aug 31, 1991	Apr 30, 1992
Cost Benefit Analysis		
Funds Distribution	Aug 31, 1991	Feb 29, 1992
Dept Acctg/Rptg	Aug 31, 1991	Feb 29, 1992
Field Acctg/Rptg	Aug 31, 1991	May 31, 1992
Develop Implementation Plan		
Funds Distrib	Dec 31, 1991	Mar 31, 1992
Dept Acctg/Rptg	Dec 31, 1991	Mar 31, 1992
Field Acctg/Rptg	Dec 31, 1991	Jun 30, 1992
Initiate Implementation Plan		
Funds Distribution	Oct 1, 1992	Oct 1, 1992
Dept Acctg/Rptg	Oct 1, 1992	Oct 1, 1992
Field Acctg/Rptg	Oct 1, 1992	Oct 1, 1992

Planned actions/events (longer term): It is anticipated that of the numerous systems, subsystems and modules supporting the financial operations area, systems dedicated to this area can be replaced by the standard systems resulting from the Corporate Information Management process. See listing of the current general accounting systems. Multi-functional systems supporting financial operations will have their functionality reduced and interfaces modified accordingly. The implementation plan will be available upon approval by the Financial Management Functional Steering Committee. This implementation plan will provide the strategy for fielding DoD standard systems for general accounting.

Validation Process to be Used: Transaction Testing, Evaluations and Reviews.

Name of System: Stock Fund Accounting System

Title of Material Nonconformances: General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/System Controls/Audit Trails/System Controls/System Documentation/System Operations/ User Information Needs/Budgetary Accounting

System Type: Core \_\_\_\_\_ Subsidiary X Program \_\_\_\_\_

Functional Category in Statistical Summary: Stock Fund Accounting

Bureau/Appropriation/Account Number: Various

Administrative Activity/Program Activity: Accounting and Finance/Reporting

Pace of Corrective Action:

Year Identified: 1991

Original Targeted Correction Date: See "Critical Milestones in Corrective Action" for explanation.

Targeted Correction Date in Last Year's Report: See "Critical Milestones in Corrective Action" for explanation.

Current Target Date: See "Critical Milestones in Corrective Action" for explanation.

Reason for Change in Date(s): Existing accounting systems were designed to keep track of the contractual cost of acquiring assets and not to satisfy the asset, liability and equity accounting data required for financial and business reporting purposes. When the need for acquisition costs, asset modification costs, overhaul or repair costs arises; property or inventory managers are tasked to use their logistics systems to report needed information. These systems are not well suited to classifying assets in accordance with financial management systems requirements and they yield cost information as well as reports of financial position and results of operations that are incomplete, inaccurate, and difficult to reconcile with appropriation accounting information because it was not developed as part of the financial system network. System development efforts by the Military Departments and DoD Agencies experienced many problems and program slippages in attempting to link the dissimilar data and records of logistics systems and accounting systems striving to meet the requirements of the FMFIA and the Chief Financial Officers Act.

Description of Material Nonconformance and Its Impact on Agency Operations:

General Ledger Control and Financial Reporting. General ledger account structure does not follow DoD's required structure. The system does not fully maintain double entry general ledger accounts and control. Accounting reports are not fully based upon general ledger accounts.

Property Accounting. The value of property, (facilities, equipment, and material, including government-furnished material and property), is not recorded at full cost in the accounting system's records or is not maintained under continuous financial control. All acquisitions, transfers to/from other agencies, donations, sales, abandonments, demolitions, disposals, etc. are not recorded and/or are not based upon authorized financial transactions.

Accounting for Receivables. DoD does not record all the amounts owed to the U.S. Government. Accounts receivable are not recorded promptly, controlled or monitored, and reported accurately and promptly. Inability to calculate interest, penalties, or administrative charges on overdue accounts.

Audit Trail. System does not provide adequate audit trails.

System Controls. Passwords and other techniques are not employed to protect software and files from accidental or malicious modification, destruction or unauthorized disclosure. Procedures are not established which define and control who can initiate a system change and who can authorize a system change. Transactions are not authorized, recorded, executed, and traceable to the person making the entry. Controls do not ensure that all errors are revalidated in a timely manner. There are no procedures in place for periodically reviewing errors by type and source. Error rates are not recorded and monitored.

Systems Documentation. System documentation does not exist or does not adequately describe the system design and procedures. The detailed accounting system design package does not document completely the functional user's requirements. The package does not consist of narrative explanations of required accounting processes, flowcharts, internal controls that must be incorporated within the accounting system, illustrations of source documents, and accounting output products. The package is not complete enough to allow an accountant who is unfamiliar with the accounting system to determine internal processing and controls and the system's compliance with prescribed accounting requirements.

System Operations. System or system segments do not adequately interface and/or ADP hardware or software and related manual processes are incomplete, outmoded, nonstandard, and

require duplicative processing. There is no contingency plan or alternate site computer in the event there is an emergency or computer failure. Files are inadequately protected from loss or unauthorized changes while being accessed and maintained and backed up to ensure reconstruction. System and error rates are not monitored continuously to eliminate inefficient, uneconomical procedures and information.

User Information Needs. General ledger and subsidiary account structure, and financial reports are not current and sufficiently detailed to satisfy user needs.

Budgetary Accounting. Accounting information does not fully support budgetary requirements. The system is not able to record, store, and report data to facilitate budget preparation, analysis, and execution. Data is not classified uniformly and is not at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets without excessive aggregation or disaggregation. Presidential and congressional decisions are not recorded precisely and financial management data on results is not classified to track such decisions.

Source of Discovery of Material Nonconformance: Evaluations, Reviews and Audits.

Critical Milestones in Corrective Action: Stock Fund accounting operations are performed at supply inventory control points, supply depots, and retail level supply facilities. Inventory control points and supply depots within the same DoD Component are generally supported by the same accounting systems. Wholesale and retail supply activities are generally supported by different accounting systems. The standardize and/or consolidated DoD Stock Fund Accounting System developed as a Corporate Information Management initiative, will provide DoD with an automated standardized system supported by standard policies, procedures, practices, and organizations that will:

- (1) Adequately control inventories;
- (2) Adequately reconcile accounting data with supporting inventory records;
- (3) Accurately identify and track the cost of inventory;  
and
- (4) Identify costs incurred to maintain and support inventory.

Planned actions/events (short term - next 12 months):

<u>Critical Milestones</u>	<u>Completion Date</u>	
	<u>Original Plan</u>	<u>Current Plan</u>
Develop Stock Fund System Requirements	Dec 27, 1992	Dec 27, 1992
Evaluate Stock Fund Systems	Mar 10, 1993	Mar 10, 1993
Perform Cost/Benefit Analysis	Mar 24, 1993	Mar 24, 1993
Provide Stock Fund Accounting System Recommendations	Mar 25, 1993	Mar 25, 1993

Planned actions/events (longer term): On October 1, 1991, current Stock Funds were merged into a single Defense Business Operations Fund. It is anticipated that numerous systems, subsystems and modules supporting the Stock Fund can be replaced by the standard systems resulting from the Corporate Information Management process that will support the supply management and distribution depot functions of Defense Business Operations Fund. See listing of the current Stock Fund accounting systems. The implementation plan will be available upon approval by the Financial Management Functional Steering Committee. This implementation plan will provide the strategy for fielding DoD standard systems for Stock Fund accounting.

Validation Process to be Used: Transaction Testing, Evaluations and Reviews.

Name of System: Industrial Fund Accounting System

Title of Material Nonconformances: General Ledger Control and Financial Reporting/Property Accounting/Accounting for Receivables/ System Controls/Audit Trails/System Documentation/System Operations/User Information Needs/Budgetary Accounting

System Type: Core \_\_\_\_\_ Subsidiary X Program \_\_\_\_\_

Functional Category in Statistical Summary: Industrial Fund Accounting.

Bureau/Appropriation/Account Number: Various.

Administrative Activity/Program Activity: Accounting and Finance/Reporting.

Pace of Corrective Action:

Year Identified: 1991

Original Targeted Correction Date: See "Critical Milestones in Corrective Action" for explanation.

Targeted Correction Date in Last Year's Report: See "Critical Milestones in Corrective Action" for explanation.

Current Target Date: See "Critical Milestones in Corrective Action" for explanation.

Reason for Change in Date(s): The six military component or agency level industrial and stock funds will be consolidated into a Defense Business Operations Fund, a revolving fund as of October 1, 1991. However, the accounting for the Defense Business Operations Fund activities will continue on the existing industrial and stock fund accounting systems in operation before consolidation. The Defense Business Operations Fund activities are operating under one of six interpretations of DoD policy, and numerous accounting systems. Many of the systems are activity unique, which has led to non-standard accounting practices, procedures, and reporting. DFAS, will standardize the method of accounting for revolving funds through the Corporate Information Management process and provide an Accounting System as a replacement to many outdated automated and manual industrial and stock fund systems.

Description of Material Nonconformance and Its Impact on Agency Operations:

General Ledger Control and Financial Reporting. General ledger account structure does not follow DoD's required structure. The system does not fully maintain double entry general ledger accounts. Accounting reports are not fully based upon general ledger accounts.

Property Accounting. The value of property, plant, and equipment, or material, including government-furnished material and property, is not recorded at full cost in the accounting system's records or is not maintained under continuous financial control. All acquisitions, transfers to/from other agencies, donations, sales, abandonments, demolitions, disposals, etc. are not recorded and/or are not based upon authorized financial transactions.

Accounting for Receivables. Amounts owed to the U.S. Government are not always recorded. Accounts receivable are not recorded promptly, controlled or monitored, and reported accurately and promptly. Inability to calculate interest, penalties, or administrative charges on overdue accounts.

Cost Accounting. All operational costs are not recorded in the accounting records for prescribed activities.

System Controls. Passwords and other techniques are not employed to protect software and files from accidental or malicious modification, destruction or unauthorized disclosure. Procedures are not established which define and control who can initiate a system change and who can authorize a system change. Transactions are not authorized, recorded, executed, and traceable to the person making the entry. Controls do not ensure that all errors are revalidated in a timely manner. There are no procedures in place for periodically reviewing errors by type and source. Error rates are not recorded and monitored.

Systems Documentation. System documentation does not exist or does not adequately describe the system design and procedures. The detailed accounting system design package does not document completely the functional user's requirements. The package does not consist of narrative explanations of required accounting processes, flowcharts, internal controls that must be incorporated within the accounting system, illustrations of source documents, and accounting output products. The package is not complete enough to allow an accountant who is unfamiliar with the accounting system to determine internal processing and controls and the system's compliance with prescribed accounting requirements.

System Operations. System or system segments do not adequately interface and/or ADP hardware or software and related manual processes are incomplete, outmoded, nonstandard, and require duplicative processing. There is no contingency plan or alternate site computer in the event there is an emergency or computer failure. Files are inadequately protected from loss or unauthorized changes while being accessed and maintained and backed up to ensure reconstruction. System and error rates are not monitored continuously to eliminate inefficient, uneconomical procedures and information.

User Information Needs. General ledger and subsidiary account structure, and financial reports are not current and sufficiently detailed to satisfy user needs.

Budgetary Accounting. Accounting information does not fully support budgetary requirements. The system is not able to record, store, and report data to facilitate budget preparation, analysis, and execution. Data is not classified uniformly and is not at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets without excessive aggregation or disaggregation. Presidential and congressional decisions are not recorded precisely and financial management data on results is not classified to track such decisions.

Source of Discovery of Material Nonconformance: Evaluations, Reviews and Audits.

Critical Milestones in Corrective Action: The standardization and/or consolidation of Industrial type accounting functions under the Defense Business Operations Fund offer opportunities to reduce operational costs, to standardize the accounting policies and to consolidate the systems and operations, at a minimum, within similar business functions. This initiative, executed through the Corporate Information Management process, should realize substantial overhead cost savings in the face of reduced customer funds.

Planned actions/events (short term - next 12 months):

<u>Critical Milestones</u>	<u>Completion Date</u>	
	<u>Original Plan</u>	<u>Current Plan</u>
Develop Industrial Fund System Requirements	Dec 27, 1992	Dec 27, 1992
Evaluate Industrial Fund Systems	Mar 10, 1993	Mar 10, 1993
Perform Cost/Benefit Analysis	Mar 24, 1993	Mar 24, 1993
Provide Industrial Fund Accounting System Recommendations	Mar 25, 1993	Mar 25, 1993



Planned actions/events (longer term): It is anticipated that of the numerous systems, subsystems and modules supporting the financial operations area, systems dedicated to this area can be replaced by the standard systems resulting from the Corporate Information Management process. See listing of the current Industrial Fund accounting systems. Multifunctional systems supporting financial operations will have their functionality reduced and interfaces modified accordingly. The implementation plan will be available upon approval by the Financial Management Functional Steering Committee. This implementation plan will provide the strategy for fielding DoD standard systems for Industrial Fund accounting.

Validation Process to be Used: Transaction Testing, Evaluations and Reviews.

DEPARTMENT OF DEFENSE  
FISCAL YEAR 1991  
REPORT ON ACCOUNTING SYSTEM CONFORMANCE TO  
COMPTROLLER GENERAL ACCOUNTING PRINCIPLES, STANDARDS  
AND RELATED REQUIREMENTS

PART 3  
MATERIAL NONCONFORMANCES CORRECTED IN FY 1991

Name of System: Trust Fund Accounting

Support System Name/Component Supported: Defense Integrated  
Financial System/DoD

Title of Material Nonconformance(s): General Ledger Control and  
Financial Reporting

System Type: Core Financial X Subsidiary Program

Bureau/Appropriation/Account Number: 97X8242, 97X0085, 573041,  
97X6147

Year Identified: 1983

Corrective Actions Taken: The general ledger was updated during  
FY 1991. The update enhanced the general ledger with a chart of  
accounts from DoD 7220.9-M and provided for accounting period  
integrity.

Results of Validation Actions Taken: These general ledger  
enhancements were implemented, tested, and validated in  
September 1991. The updated general ledger was supported by and  
reconciled to other DIFS data base master files which served as  
the subsidiary ledgers. Both the general ledger and subsidiary  
ledgers were supported by and reconcilable to the source  
transactions. The general ledger supported reports on budget  
and operations by accounting period.

# INVENTORY OF DOD ACCOUNTING SYSTEMS

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>GENERAL ACCOUNTING SYSTEM</u></b>		
Headquarters Accounting and Reporting System	DFAS	NC
Transportation Disbursing and Reporting System	DFAS	C
Standard Finance System	DFAS	NC
Program Budget Accounting System	DFAS	C
Funds and Order Distribution System *		
Integrated Army Automated Travel System	DFAS	C
Department On-Line Accounting and Reporting System	DFAS	C
Merged Accountability and Fund Reporting System	DFAS	C
General Funds General Ledger System (Department)	DFAS	C
Departmental Accounts Receivable System	DFAS	C
Command On-Line Accounting and Reporting System	DFAS	C
General Accounting and Finance System - Base Level *	DFAS	NC
Base Accounts Receivable System	DFAS	C
Integrated Paying and Collection System	DFAS	C
Commercial Services Accounts Payable System	DFAS	C
Centralized Expenditure and Reimbursement Processing System	DFAS	NC
Ledger Accounting System	DFAS	NC
Integrated Disbursing and Accounting Financial Management System	DFAS	NC
Automated Travel Order System	DFAS	C
Interim Standard Financial Reporting System	DFAS	C
Headquarters Accounting System	DFAS	C
Marine Corps Operating Subsystem/PRIME	DFAS	NC
Marine Corps Expenditure Reimbursement Reporting System & Navy Register System	DFAS	C
Marine Corps Travel Advance and Settlement System	DFAS	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>GENERAL ACCOUNTING SYSTEM</u></b>		
Marine Corps Commercial Accounts Processing	DFAS	C
Standard Accounting Budgeting and Reporting System	DFAS	C
Transactions By Others	DFAS	NC
Interdepartmental Fund Billing Group System	DFAS	C
Microcomputer (Travel) Claims Processing System	DFAS	C
Fund Administration and Standardized Document	DFAS	NC
U. S. Army Information Systems Command Unique	Army	C
U. S. Army Medical Material Agency Unique	Army	C
HQ AMC Standard Army Procurement Appropriation System	Army	C
HQ AMC Standard Operations and Maintenance, Army R&D System	Army	C
U. S. Army Research Office Accounting System	Army	C
Conventual Ammunition Working Capital Fund Accounting System	Army	C
Security Assistance Command Accounting System	Army	C
Belvoir Research Development & Engineering Center Accounting System	Army	C
Corps of Engineers Management Information System, Finance Accounting	Army	C
U.S. Army Aviation Research & Technology Activity Accounting System	Army	C
National Guard Accounting System	Army	NC
Consolidated Travel Management Information System	Navy	C
Navy Headquarters Financial Systems *	Navy	C
Responsibility Office Automated Resource System	Navy	C
ONR Administering Office "M" Accounting System	Navy	C
Military Assistance Program Accounting System	Navy	C
Standard Accounting & Reporting System	Navy	NC
Amalgamated Data Management System	Navy	NC
Navy Standard Claimant Accounting Module	Navy	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>GENERAL ACCOUNTING SYSTEM</u></b>		
Integrated Disbursements & Accounting, Resource Management System	Navy	NC
Uniform Automated Data Processing System - Stock Points, Series G, II B E	Navy	C
Integrated Disbursing & Accounting G03/G06	Navy	NC
Construction Battalion Center Financial Management System	Navy	C
Fleet Resources Accounting Module	Navy	C
Authorization Accounting Activity - Resource Management System, Rota, Spain	Navy	C
Naval Ocean R&D Activity) Automated Resource Management System	Navy	C
Non-Mechanized Resource Management System Activities	Navy	C
Chief of Naval Education & Training Cost System	Navy	C
Ship Repair Facility - Authorized Accounting Activity	Navy	NC
Military Personnel, Navy, Financial Management System	Navy	NC
Permanent Change of Station Reservation/Obligation Database	Navy	NC
DB System (Naval Food Service System Office)	Navy	NC
Plant Property Reporting System	Navy	C
Navy Facilities Assets Data Base System	Navy	C
Marine Corps Miscellaneous Allotment Accounting System	Navy	NC
Marine Corps Miscellaneous District O&M Accounting systems	Navy	NC
Reserve Personnel, Navy, New Orleans, Financial Management System	Navy	C
Tactical Air Command Base Level General Accounting System	Air Force	C
Central Procurement Accounting System	Air Force	C
Base Engineering Automated Management System	Air Force	C
Command Contractor Supply, Requisition & Billing System	Air Force	C
Job Order Cost Accounting System	Air Force	C
Enhanced Transportation Automated Data System	Air Force	C
WHS Allotment Accounting System	OSD	C
Appropriation Control Reporting System	OSD	C
DOD Dependents Schools Accounting System	OSD	NC

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>GENERAL ACCOUNTING SYSTEM</u></b>		
Single Defense Agency Accounting System *	OSD	C
General Appropriation Accounting System (Manual)	DCAA	C
General Accounting System	DIS	C
Centralized Accounting & Finance Resource Management System	DNA	C
ROSEDUST	NSA	C
Resource Accounting System	OCHAMPUS	C
College & University Financial System	USUHS	C
Base Operating Supply System (BOSS)	DLA	C
Mechanization of Contract Administration Services (MOCAS)	DLA	C
<b><u>MILITARY PAYROLL SYSTEM</u></b>		
Joint Uniform Military Pay System - Retired Pay	DFAS	C
Joint Uniform Military Pay System - Active Army	DFAS	C
Joint Uniform Military Pay System - Reserve	DFAS	C
Short Tour Pay System	DFAS	C
West Point Cadet Pay System	DFAS	C
ROTC Cadet Pay System	DFAS	C
Health Professionals Pay System	DFAS	C
Reserve Component Automated Pay System	DFAS	C
Joint Uniform Military Pay System	DFAS	C
Retiree Pay System	DFAS	C
Joint Uniform Military Pay System - Base Level	DFAS	C
Joint Uniform Military Pay System - Reserve Forces	DFAS	C
Navy Joint Uniform Military Pay System	DFAS	C
Retired Pay System (Military Retirees)	DFAS	C
Reserve Pay System - Drill & Active Duty For Training	DFAS	C
Retired Pay System (Annuitant)	DFAS	C
Reserve Pay System - Naval Reserve Officer Training Corps	DFAS	C
Reserve Pay Armed Force Health Professional Scholarship Program	DFAS	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>MILITARY PAYROLL SYSTEM</u></b>		
Marine Corps Reserve Manpower and Pay System	DFAS	C
Marine Corps Retired Pay and Personnel System	DFAS	C
Air Force Junior ROTC Instructor Payroll System	Air Force	C
Air Force ROTC Cadet Payroll System	Air Force	C
Casualty and Annuitant Pay System	DFAS	C
Air Force ROTC Summer Camp Payroll System	Air Force	C
Air Force Academy Cadet Payroll System	Air Force	C
Marine Corps Joint Military Pay System	DFAS	C
Manpower Management System		
Bond and Allotment System	DFAS	C
Pay Debt Collection System	DFAS	C
Uniform Microcomputer Disbursing System	DFAS	C
Allotment System	DFAS	C
National Guard Active Duty Automated Payroll System	Army	C
Naval Academy Midshipmen Pay System	Navy	C
Marine Corps Platoon Leaders Class	Navy	C
Marine Corps Financial Assistance Program	Navy	C
<b><u>STOCK FUND ACCOUNTING SYSTEM</u></b>		
Standard Army Financial Inventory Accounting and Reporting System	DFAS	C
Standard Finance System - Army Stock Fund and Financial Inventory Accounting System	DFAS	NC
Air Force Stock Fund Reporting System - Departmental	DFAS	C
Air Force Standard Base Supply System	DFAS	C
Standard Material Accounting System	DFAS	C
Integrated Accounts Payable System - Commissary Services	DFAS	C
Medical Material Accounting System	DFAS	C
Commodity Command Standard System (CCSS)--Wholesale Stock Fund	Army	C
Test, Evaluation, Analysis & Management Management Uniformity Plan (Team-Up)	Army	C
HQ Army Material Command Standard Retail Stock Fund Accounting System	Army	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>STOCK FUND ACCOUNTING SYSTEM</u></b>		
Natick Research, Development & Engineering Center Accounting System	Army	C
Navy Headquarters Stock Fund Accounting System	Navy	NC
Uniform Automated Data Processing System - Inventory Control Points	Navy	NC
Uniform Automated Data Processing System - Stock Points E&F	Navy	C
Shipboard Uniform Automated Data Processing System Accounting Class 207	Navy	NC
Fleet Accounting & Disbursing Center Processing System	Navy	C
Shipboard Uniform Automated Data Processing System - Real Time	Navy	NC
Uniform Automated Data Processing System - Level II	Navy	C
Resale Operations Management System	Navy	C
Medical Inventory Control System	Navy	C
Commissary Stores Reporting System	Navy	NC
Marine Corps Unified Material Management System	Navy	NC
Financial Inventory Accounting System	Air Force	C
System & General Support Division Stock Fund Systems	Air Force	C
Special Interfund Accounting & Reporting System	Air Force	C
Automated Coupon Accounting System	Air Force	C
Centralized Fuels Management System	Air Force	C
Missile Fuels Management System	Air Force	C
AF Academy Stock Fund Accounting System	Air Force	C
Automated Voucher Examination Disbursing System (AVEDS)	DLA	C
Defense Integrated Subsistence Management System	DLA	NC
Standard Automated Material Management System (SAMMS)	DLA	C
<b><u>TRUST FUND ACCOUNTING SYSTEM</u></b>		
Defense Integrated Financial System For Foreign Military Sales *	DFAS	C
Case Management Control System - Accounting System	DFAS	C
Management Information System International Logistics	Navy	C

\* Primary System



<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>TRUST FUND ACCOUNTING SYSTEM</u></b>		
Navy Automated Transportation Data System	Navy	NC
Trust Fund Accounting Procedures	Navy	NC
Foreign Military Training Financial Management System	Navy	NC
Naval Academy Midshipmen Store & Diary Farm	Navy	C
Naval Academy Laundry	Navy	C
Security Assistance Management Information Systems	Air Force	C
Trust Funds Accounting System	OSD	C
<b><u>CIVILIAN PAYROLL SYSTEM</u></b>		
Standard Army Civilian Pay System	DFAS	C
Air Force Standard Civilian Automated Pay System	DFAS	C
Centralized Civilian Payroll System	DFAS	C
Marine Corps Automated Leave and Pay System	DFAS	C
Navy Standard Civilian Payroll System	DFAS	C
Corps of Engineers Payroll System	Army	C
Standard Army Technician Payroll System	Army	C
British National Pay System	Army	C
Italian National Pay System	Army	C
Korean National Pay System	Army	C
Korean Service Corps Pay System	Army	C
Naval Supply Depot, Subic (CIVPAY) (Frgn Natl)	Navy	C
Naval Station Rota Spanish Civilian Payroll System (Frgn Natl)	Navy	C
Naval Support Activity Naples Italian Civilian Payroll System (Frgn Natl)	Navy	C
Personnel Support Detachment, Keflavik (CIVPAY) (Frgn Natl)	Navy	C
Naval Air Station Sigonella Italian Civilian Payroll System (Frgn Natl)	Navy	C
Personnel Support Detachment, Bermuda (CIVPAY) (Frgn Natl)	Navy	C
Naval Support Force, New Zealand (CIVPAY) (Frgn Natl)	Navy	C
U.S. Naval Purchasing Department, Hong Kong (CIVPAY) (Frgn Natl)	Navy	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>CIVILIAN PAYROLL SYSTEM</u></b>		
Uniform Automated Data Processing System - Stock Points "K" Series	Navy	C
Shipyards Management Information System, Civilian Pay (SYMIS)	Navy	C
Naval Regional Finance Center Uniform Financial Management System	Navy	C
Naval Underwater Systems Center (NUSC), Newport (CIVPAY)	Navy	C
Naval Ordnance Management Information System (NOMIS) (CIVPAY)	Navy	C
Facilities Engineering Activities (CIVPAY)	Navy	C
Naval Research Laboratory (NRL) Payroll System	Navy	C
Military Sealift Command Civilian Mariner Pay	Navy	C
Naval Air Engineering Center (NAEC), Lakehurst (CIVPAY)	Navy	C
Naval Avionics Center, Indiana (CIVPAY)	Navy	C
Naval Activities, United Kingdom, London (CIVPAY)	Navy	C
Commander, Fleet Activities, Okinawa (CIVPAY)	Navy	C
Naval Communications Station, (Harold Holt) Exmouth (CIVPAY)	Navy	C
Naval Medical Research Unit, Cairo, Egypt (CIVPAY)	Navy	C
U.S. Naval Facility, Argentia, Newfoundland (CIVPAY)	Navy	C
U.S. Naval Office, Singapore (CIVPAY)	Navy	C
U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY)	Navy	C
Marine Corps Contracted Civilian Payroll System, Camp Butler	Navy	C
Naval Regional Finance Centers Uniform Financial Management System (Bond)	Navy	C
Shipyards Management Information System (SYMIS) (Bond)	Navy	C
Savings Bond System Fleet Account & Disbursing Center (FAADC)	Navy	C
Regional Accounting & Disbursing Center, Jacksonville (Bond)	Navy	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>CIVILIAN PAYROLL SYSTEM</u></b>		
Naval Supply Center (NSC), Charleston (Bond)	Navy	C
Naval Supply Center (NSC), Pearl Harbor (Bond)	Navy	C
Naval Supply Center (NSC), Oakland (Bond)	Navy	C
Naval Supply Depot (NSD), Guam (Bond)	Navy	C
Personal Support Detachment, Panama Canal Zone (Bond)	Navy	C
Personal Support Detachment, Puerto Rico (Bond)	Navy	C
NAVCOMMSTA, Exmouth, Australia (CIVPAY) (Frng Natl)	Navy	C
Naval Supply Depot, Guam (CIVPAY) (Frng Natl)	Navy	C
Naval Medical Research Unit, Cairo, Egypt (CIVPAY) (Frng Natl)	Navy	C
U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY) (Frng Natl)	Navy	C
Naval Activity, United Kingdom, London (CIVPAY) (Frng Natl)	Navy	C
U.S. Naval Facility, Argentina, Newfoundland (CIVPAY) (Frng Natl)	Navy	C
U.S. Navy Office, Singapore (CIVPAY) (Frng Natl)	Navy	C
Portuguese Foreign National Civilian Pay Mechanized System	Air Force	C
Korean Local National Payroll & Leave Accounting System	Air Force	C
Philippine Local National Payroll & Leave Accounting System	Air Force	C
English Direct/Indirect Hire Local National Payroll System	Air Force	C
Greek Indirect Hire Local National Payroll System	Air Force	C
German Indirect Hire Local	Air Force	C
Spanish Direct Hire Local	Air Force	C
Turkish Direct Hire Local National Payroll System	Air Force	C
Italian Direct Hire Local National Payroll System	Air Force	NC
Automated Payroll, Cost and Personnel System (APCAPS)	DLA	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>INDUSTRIAL FUND ACCOUNTING SYSTEM</u></b>		
HQ AMC Standard Industrial Fund System	Army	C
Rock Island Arsenal Industrial Fund System	Army	C
Watervliet Arsenal Industrial Fund System	Army	C
Pine Bluff Arsenal Industrial Fund System	Army	C
Military Traffic Management Command Financial Management System	Army	C
Navy Industrial Fund Reporting System	Navy	C
Shipyards Management Information System	Navy	C
NAVAIR Industrial Financial Management System	Navy	C
Naval Ordnance Management Information System	Navy	C
Public Works Center	Navy	NC
Naval Computer & Telecommunication Command	Navy	NC
Printing Resources Management Information System	Navy	NC
Military Sealift Command Industrial Fund Accounting System	Navy	NC
Pacific Missile Test Center, Point Mugu	Navy	C
Naval Weapons Center, China Lake	Navy	C
Naval Surface Warfare Center, Dahlgren	Navy	C
Naval Underwater System Center, Newport	Navy	C
Naval Research Laboratory, Washington	Navy	C
Naval Ocean Systems Center, San Diego	Navy	C
Naval Air Test Center, Patuxent River	Navy	NC
David Taylor Research Center, Bethesda	Navy	NC
Naval Air Development Center, Warminster	Navy	C
Naval Avionics Center, Indiana	Navy	C
Naval Ship Weapons Systems Engineering Station	Navy	C
Naval Air Engineering Center, Lakehurst	Navy	NC
Naval Ordnance Station, Louisville	Navy	C
Naval Coastal Systems Center, Panama City	Navy	NC
Naval Civil Engineering Laboratory, Port Hueneme	Navy	C
Naval Air Propulsion Center, Trenton	Navy	NC
Naval Ship Systems Engineering Station, Philadelphia	Navy	C
Job Order Production Master System	Air Force	C
Project Order Control System	Air Force	C
Contractual Depot Maintenance Production Cost System	Air Force	C
Depot Plant Equipment Program System	Air Force	C

\* Primary System

<u>Support System Name</u>	<u>Component</u>	<u>Compliant C/NC</u>
<b><u>INDUSTRIAL FUND ACCOUNTING SYSTEM</u></b>		
Government Furnished Material	Air Force	C
Transactions Reporting System		
Accounting System for Industrial	Air Force	C
Fund Procurement of GFM		
Manhour Accounting & Distribution System	Air Force	C
Uniform Cost Accounting &	Air Force	C
Financial Control System		
Maintenance Material Requirements	Air Force	C
& Cost System		
Maintenance Labor & Production	Air Force	C
Cost System		
Aerospace Maintenance & Regeneration	Air Force	C
Center (AMRC) - Asset Control System		
Aerospace Maintenance & Regeneration	Air Force	C
Center - Cost & Billing System		
Airlift Services Industrial Fund	Air Force	C
Integrated Computer System		
Industrial Funds General Ledger System	Air Force	C
AF Industrial Fund Travel	Air Force	C
Interface System		
AF Industrial Fund Laundry & Dry	Air Force	C
Cleaning - Central Office		
Industrial Fund Laundry & Dry	Air Force	C
Cleaning - Base		
Uniform Cost Accounting Depot Maintenance	Air Force	C
Budget & Management Cost System		
Maintenance Labor Distribution &	Air Force	C
Cost System		
Workload Planning & Control System	Air Force	C
Depot Maintenance Production	Air Force	C
Cost System		
Maintenance Actual Material Cost System	Air Force	C
Commercial Services Industrial Fund	DISA	C
Defense Fuel Automated Management	DLA	C
System (DFAMS)		
Defense Industrial Fund	DLA	C
Marine Corps Industrial Fund System	DFAS	NC
Air Force Industrial Fund General	DFAS	C
Ledger System - Department		

\* Primary Systems